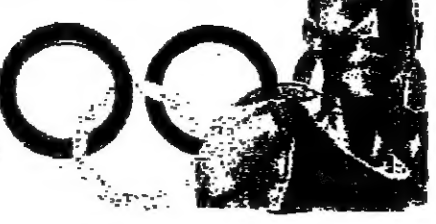
FINANCIAL TIMES

Start the week with...

Crest
London's new settlement service
John Gapper, Page 15



Olympic Games
Why Britain's élite lags the world
Keith Wheatley, Page 10

Today's survey
Israel: Prospects for reform
Separate section

World Business Newspaper

MONDAY JULY 15 1996

US team seeks to help speed Russian reforms

A team of senior US figures including Al Gore, the vice-president, will this week try to boost Russian reform by promoting a package of trade and investment measures designed to speed the country's reintegration into the world economy. Mr Gore's team will focus on helping Russia to introduce an effective tax regime, stimulate domestic and foreign investment, and combat crime and corruption. Page 16; Time to give the bear a hug, Page 14

Olympic advertising upset: Corporate advertisers, such as Fuji and Daimler-Benz, have beaten restrictions on unofficially associating their names with the Olympics games, which open in Atlanta on Friday. Lawyers have been unable to protect fully the interests of sponsors which have paid $40m each to associate their names with the world's biggest sporting festival. Page 16; Atlanta readies for the first Commercial Games, Page 4; Britain's elite, Page 10; Observer, Page 15

Cheap labour loses allure: Access to cheap labour is a rapidly decreasing priority for US manufacturing companies investing abroad, which are chiefly interested in establishing positions in large and prosperous markets with world-class production standards. Page 3; US takes up arms against sweatshops, Page 4

Move to calm fears over Emu rates: Efforts to curb currency speculation in the run-up to European Monetary Union are gathering pace with proposals aimed at calming market nerves. Page 2

Nestlé will this year start to see the first big rewards from its SFr3bn ($2.4bn), five-year-old investment in mineral water, a diversification criticised by some investors as expensive and insufficiently profitable. Page 17; Lex, Page 16

Munich Re, the world's largest reinsurance company, has announced a sharp rise in its dividend after a "very satisfactory" financial year. Page 19

Costain, the troubled UK construction group, would have no choice but to go into administrative receivership if shareholders reject a proposed rescue refinancing, its chief executive warned. Page 17

Eurotherm, the UK industrial controls manufacturer, said it was ready to revoke the recent dismissal of its chief executive, after one of the most open shareholder revolts seen in the City of London. Page 17

Challenge to Netanyahu averted: A potential challenge to the government of Israeli prime minister Benjamin Netanyahu, sparked by violent clashes between ultra-religious Jews and police in Jerusalem over the weekend, was quietly resolved. Page 4

US-Vietnam frustrations mount: Vietnam's communist leadership and US businessmen based in the country have expressed frustration to US national security adviser Anthony Lake over the slow pace of improvement in economic relations between the two countries. Page 3

HSBC Holdings is seeking to acquire a medium-sized US investment bank. The group, which has ruled out buying a large US "bulge bracket" firm such as Lehman Brothers, is believed to be looking for an acquisition in the order of $600m. Page 17

TV/Net service launches: MSNBC on the Internet, a joint venture between Microsoft and NBC, the TV news subsidiary of General Electric, starts broadcasting today – the first purpose-built integrated TV and Net news service. Page 11

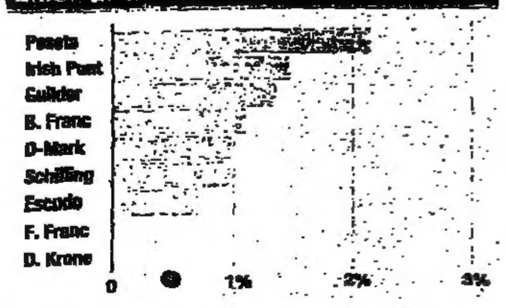
Brazilian banks merger: The restructuring of Brazil's troubled banking industry continued at the weekend with the merger of Banco de Crédito Nacional and Itamarati to form the country's fifth-biggest private-sector bank. Page 19

Thai central bank: Fears for the integrity and independence of Thailand's respected central bank were renewed after attempts to link its new governor to an alleged land scandal. Page 3

Grand prix victory for Villeneuve: Canadian Jacques Villeneuve in a Williams Renault had a comfortable victory in the British Grand Prix at Silverstone. His victory cut to 15 points Damon Hill's lead in the world drivers' championship.

European Monetary System: There was little movement in the EMS grid last week, and few traders expect any significant gyrations this week. The D-Mark, however, has recently been strengthened slightly by expectations that German interest rates have stopped falling. Meanwhile, the guilder may become slightly stronger this week after an unexpected Dutch interest rate rise late on Friday. Currencies, Page 23

EMS: Grid



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

IRA denies responsibility for Enniskillen blast ■ Mayhew faces Commons test

Loyalists poised to retaliate for Ulster bomb

By John Kampfner in London and John Murray Brown in Belfast

Northern Ireland was on the brink of a new wave of violence last night as Protestant politicians warned that loyalist paramilitaries were primed to retaliate for the first bombing in the province for two years.

The warning came as the IRA denied responsibility for Saturday night's attack on a hotel in Enniskillen, in which 17 people were injured. Irish security officials suggested it was more likely to be the work of a splinter group, Republican Sinn Féin.

British and Irish ministers condemned the bomb, but – with relations between the two governments at their lowest ebb in perhaps a decade – recriminations continued over last week's decision by police to allow Protestant marchers to parade through a Catholic estate in the town of Portadown.

All sides conceded that the Enniskillen bomb brought closer the prospect of a return to bloodshed not seen in the province since the ceasefire.

Sir Patrick Mayhew, UK Northern Ireland secretary, will face the stiffest test of his career today when he makes a statement to MPs.

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Editorial Comment .... Page 15

Sir Patrick is expected to meet Mr Dick Spring, Irish deputy prime minister, in Belfast tomorrow when multi-party talks resume. Both governments will urge unionist and nationalist parties not to give up the political process.

The moderate nationalist Social Democratic and Labour party announced it was withdrawing from the Northern Ireland forum, the broader body consisting of politicians and other prominent figures from the province that is meeting separately to the talks.

Mr John Hume, the SDLP leader who helped arrange the original IRA ceasefire of August 1994, called on the British government to allow Sinn Féin to join the negotiations. London and Dublin have until now made clear the IRA must end its campaign of violence before its political wing can participate.

Mr David Ervine, of the small Progressive Unionist party which is allied to one of the paramilitary groups, the UVF, warned the loyalist ceasefire, announced in October 1994, was "absolutely, totally and utterly in jeopardy".

Mr Garry McMichael of the rival Ulster Democratic party said the province had "reached a watershed" and that the bombing was "likely to get a response".

However, Mr Gerry Adams, the Sinn Féin president, said the bomb at the lakeside Killyhevlin hotel, which was hosting a wedding reception at the time, could

Continued on Page 16

Bringing ruin to the peace process: the Killyhevlin Hotel in Enniskillen after Ulster's first blast for almost two years
Picture, Press Association

Kerkorian emerges as late entry in race to buy MGM

By Christopher Parkes in Los Angeles

Mr Kirk Kerkorian, the veteran corporate raider, has emerged as surprise challenger in the final stages of the race to buy MGM, the last top Hollywood studio not controlled by an entertainment conglomerate.

He has pitted himself against the leading group of three contenders in harness with a management buy-out team which many pundits had earlier ruled out of the running.

The entry of MGM's former owner, widely seen as the man responsible for its decline, adds a piquant twist to the struggle over the studio's future.

The latest bid sets the management against PolyGram, the Philips subsidiary, News Corporation, owner of 20th Century Fox, and a local contender, Morgan Creek Productions.

It provides a second string for News Corp, which owns 15 per cent of Australia's Seven television network, another backer of the team led by Mr Frank Mancuso, MGM chairman.

Mr Kerkorian has pledged $700m to Mr Mancuso and Seven a further $250m, with up to $350m coming from other sources.

Despite losses when he controlled MGM, Mr Kerkorian may have been attracted by the recovery engineered by Mr Mancuso since mid-1993. The studio's share of US box office revenues is now about 10 per cent compared with less than 2 per cent three years ago. Recent hits include *The Birdcage* and the James Bond revival, *GoldenEye*.

Television programme production has also restarted, but lack of cash has stalled efforts to exploit the "Leo" brand in other entertainment and consumer products markets.

Tracinda, Mr Kerkorian's investment vehicle, already

Continued on Page 16

Rioting in Libya leaves 'up to 50' dead

Crowd shouts anti-Gaddafi slogans at football game

By Roula Khalaf in London and Shahira Idriss in Cairo

Several people, perhaps as many as 50, have been killed in riots in the Libyan capital of Tripoli, Western diplomats in the city said yesterday. The deaths occurred after sections of the crowd at a football match shouted slogans against the Libyan leader Col Muammer Gadaffi. Public criticism of Col Gadaffi in his own country is unprecedented.

Bodyguards protecting Col Gadaffi's two sons at the match last Tuesday apparently opened fire on about 2,000 people chanting anti-Gadaffi slogans. Information in Libya is tightly controlled but the rioting forced the authorities to acknowledge the incident over the weekend.

Diplomats said it was not clear how many had died, but the figure appeared to be between 20 and 50. They did not know whether the dead had been shot or crushed in the ensuing stampede.

The government disbanded the football teams after the incident and declared 24 hours of mourning. State-run media said "riots" had taken place at a football match, without giving details.

Life in Tripoli was back to normal by Wednesday, according to diplomats.

Libyan dissidents in Cairo said the anti-Gadaffi slogans probably were sparked by the fact that Al-Ahly, one of the teams playing, was financed by one of Col Gadaffi's sons – a fact which appears to influence referees. During Tuesday's riot, fans invaded the pitch and attacked the referee.

"People are tired of the regime's involvement in everything, even in football," said a dissident.

Diplomats were puzzled yesterday by the news that mobs of angry young men later took to the streets and stoned cars owned by diplomats and foreigners. The UN office in Tripoli was reported to have been attacked.

"There were different aspects of the violence because the anti-Western crowds are not the anti-Gadaffi ones," said a diplomat. "But then Libya is not a logical place."

Tuesday's riots marked the second violent incident in Tripoli within a month. In late June, political prisoners attempted to break out of the Abou Salim prison and held some wardens hostage. Security forces stormed the prison. Diplomats said dozens of people were killed.

Until then, tension had been concentrated in the north-east, where young opponents of the regime have taken refuge in the mountains around the port of Benghazi.

UN sanctions banning international travel and the sale of military, aviation and some oil industry equipment were imposed on Libya in 1992 after Col Gadaffi's refusal to hand over two suspects wanted in connection with the bombing of a Pan Am flight over Lockerbie in Scotland in 1988.

Deutsche arm set to end ING staff raids

By Nicholas Denton in London

Deutsche Morgan Grenfell is poised to agree to stop poaching staff from ING Barings in order to end the legal dispute set off when the Deutsche Bank division launched one of the biggest staff raids in recent years on its rival.

An agreement would be the first sign of restraint by one of the financial institutions seeking to build a global investment bank by luring teams from competitors with promises of career advancement and bonuses rather than through acquisitions.

In the highly unusual accord, DMG will promise a moratorium until December on hiring employees from ING Barings. It will not approach ING Baring's clients until September.

In return, ING Barings will drop the $10m lawsuit it lodged last month with the New York Supreme Court alleging that DMG had solicited its Latin American staff and had engaged in unfair competition.

Neither side would comment on the negotiations. They are understood to be continuing, so the terms of the settlement could alter. But figures close to the talks said the accord would be signed early this week.

The agreement extricates ING from a legal attack which was seen by competitors as an embarrassing admission of weakness by a bank still wrestling with the integration of Barings, the UK investment bank ING rescued in 1995.

The initiative by ING's New York subsidiary is also understood to lack the wholehearted support of the bank's Amsterdam headquarters.

DMG's self-restraint has little practical significance because it already has achieved its goal in luring 72 analysts, sales people, traders and support staff from ING Barings' Latin American equities operation.

However, the hiring moratorium is a concession on principle for DMG, which has poached about 300 executives in the past 18 months and has held that investment banks should operate by the same free-market rules from which their business benefits.

ING was emboldened in its attack on DMG by Mr Rudi Mueller, head of UBS in London, who criticised bonus levels; and by Mr Andrew Buxton, chairman of Barclays Bank, who warned of the dangers of guaranteeing bonuses over two or three years.

While dismissing its detractors, DMG has played down its most recent appointments, and has begun to draw attention to staff losses which cancel out many of the arrivals, and says its hiring drive is nearly complete.

Albania	LEK 220	Germany	DM4.00	Lithuania	Lit 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr12.00	Kuwait	Fils650	Portugal (m'land)	Esc240	Turkey	L90,000
		Lebanon	LL3000			UAE	Dh12.00

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Decision on Azeri oil pipeline contract this week

By Robert Corzine and Bruce Clark

A contract to oversee the reconstruction of an oil pipeline from Azerbaijan to the Black Sea will be awarded this week, bringing closer the day when the Caspian Sea's vast energy reserves are opened to western consumers.

The announcement by a BP-led consortium, which has signed an $8bn contract to drill for oil off the coast of Azerbaijan, will be watched closely by all the strategic and economic players in the region: the western oil majors and local power brokers such as Georgia's President Eduard Shevardnadze.

The Azerbaijan International Operating Consortium (AIOC) is considering bids from at least five companies for the repair and completion of an old pipeline route from the Caspian to Supsa on the coast of Georgia.

The contenders are understood to include two UK-based engineering concerns – Root and Brown and John Brown Engineering – as well as Fluor Daniel and Bechtel of the US.

The AIOC, the other participants of which include Lukoil of Russia, TPAO, the Turkish oil concern, and a group of US companies which holds nearly half the shares, reckons the cost of renewing the pipeline through Georgia will be about $250m. The consortium has sought financing for the project from the International Finance Corporation, the World Bank's arm for private sector financing, and the European Bank for Reconstruction and Development, but has also said it will fund the work from its own resources if necessary.

The Georgian route faces one more hurdle – a final decision to proceed with construction which the AIOC is expected to make in September – but this week's decision will give a fresh fillip to President Shevardnadze.

He is struggling to rebuild Georgia's war-torn economy and to reassert control over the strategic and potentially rich coastal region of Abkhazia, from which more than 200,000 Georgians fled after losing a war in 1993.

The pipeline route lies to the south of the former war zone. Its completion is expected to bring prosperity to once lawless areas of western Georgia, and it may weaken the will of the Abkhaz rebels to resist Mr Shevardnadze's authority.

In recent days, there have been signs of movement on the Abkhaz issue. Mr Shevardnadze has said the time is ripe for talks with his arch-enemy Mr Vladimir Ardzinba, the leader of the breakaway movement in Abkhazia. In addition Mr Ardzinba – apparently under pressure from Moscow – has reportedly expressed willingness to submit to Georgia's authority.

Georgia wants the Russian peacekeeping force in Abkhazia to change its mission: instead of patrolling the *de facto* boundary, it should actively intervene to ensure that Georgian refugees are allowed to return to their homes in the former war zone.

The UN Security Council last week agreed to an extension of the observers' mission and called on the Abkhaz rebels to strike a compromise.

Officials in Georgia and Azerbaijan, both of which accuse Russia's security forces of fomenting secessionist movements on their territory, have welcomed the easy re-election of President Boris Yeltsin and the apparent downfall of the Kremlin "war party" led by General Pavel Grachev, the former defence minister.

Lamfalussy wants central bankers to curb speculation by spelling out method of calculation in advance

Move to calm fears over Emu exchange rates

By Gillian Tett, Economics Correspondent

Efforts to curb currency speculation in the run-up to European Monetary Union are gathering pace with proposals aimed at calming market nerves.

Mr Alexandre Lamfalussy, president of the European Monetary Institute, is stepping up pressure on European central bankers to announce in advance how the exchange rates will be set under Emu.

He is proposing that the Emu rates be based on the average exchange rate levels in the three years before monetary union starts in 1999.

However, he is also trying to persuade central bankers to announce these calculations in advance – probably when Emu membership is announced in mid-1998 – in order to calm market turmoil before Emu gets under way.

Under the current timetable, the currencies of Emu members are due to be fixed at "irrevocable" rates from January 1, 1999, until they are replaced by the notes and coins of a single currency in 2002.

European central bankers are expected to draw up plans on the issue in coming months. Some continental banking officials support the proposals. However, the issue is delicate, not least because the way countries' currencies are locked into Emu could affect their competitiveness: if a country is locked in at a lower rate, for example, this could help make its exports relatively cheaper on world markets.

The proposals have been greeted with caution by some European Commission officials, particularly since the Maastricht treaty stipulates that fixed exchange rates do not take effect before Emu begins in 1999. Some Commission officials also fear that pre-announcing the calculations – or even holding a public debate on the matter – could in itself fuel market speculation.

Mr Lamfalussy, however, insists that his proposals obey the Maastricht treaty, since they would not actually fix the future rates, but simply indicate the likely levels. If these were announced in 1998, for example, they would largely be based on the pattern in the past.

"One method of calculation would be to take the average exchange rate over the three years before the beginning of January 1 1999. That would mean that, as you approached 1999, there would be a narrower possibility of having exchange rate fluctuations," he says. "That would calm speculation as you are approaching the date because the room for speculation would become smaller and smaller."

He suggests another option would be to give greater weight to the rates in 1996 and 1997, thus further minimising the impact of any swings in late 1998.

Currency traders are divided over whether these proposals would be workable.

Meanwhile, there are growing signs that economists are also becoming nervous again about the practicality of the Emu timetable. DRI/McGraw-Hill argues in a report today that France and Germany's budget deficits may force a brief "technical" delay.

Mr Stephen King, chief European economist at HSBC James Capel, argues in a separate report that "whilst Emu will eventually happen, it will not happen on time".

German budget puts pressure on Paris

France may have to try harder to meet Maastricht criteria for monetary union

By David Owen in Paris and Peter Norman in Bonn

The tough German draft budget approved by the federal cabinet last week has put France on the spot.

There has been a lot of loose *talk in Paris lately to the* effect that a 1997 French budget deficit of 3.5 per cent of gross domestic product, or even a little under 4 per cent, could be enough to qualify France for European monetary union – rather than 3 per cent as set out in the Maastricht treaty.

Germany would not risk provoking a possible crisis by trying to prevent France from joining under such circumstances, the reasoning goes, just so long as the trend is downwards from the 5 per cent recorded in 1995. Still less would Germany do this if it had failed to achieve the 3 per cent target itself.

But if Bonn, in the words of one French newspaper, is set on being Europe's "best pupil" by doing its utmost to ensure its deficit really is below 3 per cent, is there not a danger that France will similarly have to be seen to be trying harder when it presents its 1997 budget *in September?*

It is already expected that Mr Alain Juppé, the prime minister, will be tough on spending. But tax cuts are also widely expected, in deference to MPs of the right who are anxious to improve their prospects in the next legislative elections due by spring 1998. Will it not be that much harder to convince the markets of the wisdom of such a move if the Germans are perceived to be putting their house in order?

Mr Juppé's sales pitch could well be, as some maintain, that tax cuts would ultimately be revenue neutral. He may argue that with inflation low, the franc strong and foreign trade in surplus, the missing ingredient in a relatively positive picture is consumer confidence.

People have been squirreling their money away, he could say, because they are afraid they will be taxed more in future. *Once they realise this* is not so, they will start to spend more, with positive *spin-offs* for French economic growth and the all-important budget deficit.

It could equally be argued, however, that, with unemployment within a whisker of its highest-ever level, it is job insecurity, rather than fears about taxes, that is deterring many consumers from spending more. And even those who accept that tax cuts may not in the long run worsen the deficit, must presumably concede that there would be a – potentially critical – time lag before the positive side-effects of the anticipated increase in spending were felt.

Of course, even with the budget approved last week, it is still far from certain that the Germans will hit the 3 per cent target. There are risks in the budget plan to reduce federal spending by 2.5 per cent to DM440.2bn ($290bn) next *year while cutting Bonn's 1997* net borrowing requirement to DM56.5bn from DM59.9bn for this year.

Mr Adolf Roth, the budget expert of Chancellor Helmut Kohl's Christian Democratic Union in the Bundestag, has warned that the budget "contains no reserves to deal with the unexpected" and that management of the public finances next year will have to aim strictly at keeping within the planned borrowing level.

Germany's high unemployment rate is, in Mr Roth's view, the budget's Achilles heel. While Bonn envisages no federal transfers to help finance unemployment pay next year, a further rise in the jobless could create deficits at the federal labour office which the federal government would be obliged to plug.

Another uncertainty lies in the budget plans of the German federal states and local authorities. Germany's ability *to bring the overall* government deficit down to the planned 2.5 per cent of GDP next year depends on the states and local authorities cutting the sum in their deficits to DM44.5bn in 1997 from a planned DM53.5bn this year and DM60.9bn in 1995.

Ultimately, the most telling factor in determining whether the two countries meet the Maastricht criteria is likely to be the rate of economic growth that both achieve. If the German budget reinforces market confidence in Bonn's economic stewardship and paves the way for new interest rate cuts, it may yet make a positive contribution to both countries' efforts.

Chirac calls for big reduction in interest rates

By David Owen in Paris

President Jacques Chirac yesterday used the annual Bastille Day celebrations to make a strongly-worded call for lower French interest rates.

In an hour-long television interview, broadcast from the garden of the Elysée Palace on the day marking the outbreak of the French Revolution, the president said interest rates were "high, clearly too high" and that there was "scope for a significant reduction".

However, in what frequently amounted to a holiday pep-talk to the French nation, he cautioned viewers against simply sitting back and waiting for higher economic growth to take root. "We must make it happen," he said. "It is in the hands of each one of us."

In the course of passing comment on most of the main issues of the day, Mr Chirac also expressed support for Mr Alain Juppé, the prime minister, who was the principal target of a strongly worded front-page editorial in the daily newspaper Le Monde last week and announced plans to reform France's penal procedures.

He confirmed the reduction of tax levels – "notably probably income tax" – would begin in 1997. He said a reduction in taxes was probably "the greatest expectation today of French people". He acknowledged that "year after year" taxes had reached an intolerable level, but this was because the French had allowed themselves to be "devoured by deficits".

Mr Chirac was also highly critical of the past handling of the French banking system which, he said, was in crisis, probably because it had been badly managed. The banks with the worst problems "used to belong to the state. They were under the stewardship of the management of the Treasury and the Bank of France which were charged with assuring this control. And I regret to say this control was not exercised well."

Appearing relaxed and good humoured after watching the traditional military parade with Mr Nelson Mandela, the South African president, Mr Chirac announced that he had asked the government to examine how French penal procedures could be speeded up. "I deplore its slowness," he said.

The way the government was conducting its affairs "conforms perfectly with the objectives fixed in the election campaign", he said. Mr Juppé was doing "the best job possible" under difficult circumstances.

He emphasised the need to be tough on "clandestine immigrants", and said a strong political signal was needed to put off those who might be thinking of coming to France. But an effective aid and development programme was "an indispensable complement" to tough immigration policies.

On Corsica, he said he thought the time for "positive dialogue" had arrived and that "the nationalists were realising more and more they have driven themselves into a dead end". But he called for more rigour in the application of the law on the island and said local mafias had to be "absolutely eradicated".

Mr François Hollande, spokesman for the opposition Socialist party, said he thought the only person who would be reassured by the president's words was Mr Juppé.

Jets trailing smoke in the national colours fly over yesterday's Bastille Day parade in Paris Reuter

EUROPEAN NEWS DIGEST

Italy's PM digs in his heels

Mr Romano Prodi, Italy's prime minister, said yesterday he was determined to survive the full five-year mandate of his centre-left government, in spite of growing criticism from political allies and opponents. Last week, the government's three-year macroeconomic programme was blocked in the lower house of parliament, until concessions were made to Reconstructed Communism, the hardline Marxist party, on the question of wage increases.

The government was also criticised over the weekend for again delaying approval of important draft legislation on the regulation of the media and telecommunications sectors. This is a prerequisite for the long-awaited privatisation of Stet, the state-controlled telecoms holding company.

In an interview with La Repubblica, the centre-left daily newspaper, Mr Prodi said: "The honeymoon is over. It barely lasted five weeks instead of the statutory six months; but that's all right. It's enough to know that the truce is over, and from now on we'll have to count on our own resources."

The government hopes to send a positive signal on Wednesday by finally approving a draft law to regulate media and telecoms. Differences within the coalition and complaints from the state-controlled Rai television network led to postponement of the decision on Friday. *Andrew Hill, Milan*

Italian strikes anger airlines

A strike today by Italian airport staff has prompted foreign airlines operating in Italy to complain to the transport minister about the impact of industrial action in the air transport sector.

Unions representing airport employees plan to stage a four-hour stoppage in protest at plans to transform airport operators into joint stock companies, as a prelude to privatisation.

IBAR, the association of airlines operating in Italy, said in its letter that recurring industrial action, particularly in the peak summer period, disrupted travel, damaged the economic performance of all airlines and tarnished Italy's image with tourists. Alitalia itself has reached a delicate agreement with its unions over restructuring, but separate public-sector disputes with air traffic controllers and airport staff have not been resolved. *Andrew Hill*

Ifo paints better German picture

The Munich-based Ifo economic research institute has challenged the widespread view that German wages and business taxes are too high and driving investment abroad.

In a study commissioned by the Bonn economics ministry, Ifo said a "positive picture" emerges of Germany as an investment location after taking account of real unit labour costs and generous depreciation allowances. However, it warned that Germany could only remain competitive if productivity stayed above that of other countries.

The institute, which is one of Germany's leading economic research bodies, also criticised high taxes on retained earnings which weakened the capitalisation of small and medium sized companies. Although lower taxes and non-wage labour costs would be beneficial for Germany, the country's real disadvantages lay elsewhere, Ifo said. It called for more deregulation, faster investment approval procedures, fewer restrictions on market access for companies and more flexible labour laws. In addition, Germany needed more privatisation and fewer subsidies and further liberalisation of capital markets. *Peter Norman, Bonn*

Cheap labour loses its allure, Page 3

US training for Bosnia army

A group of retired US generals arrived in Sarajevo yesterday to start a programme of instruction for the Bosnian army, part of an effort by Washington and several Moslem states to counterbalance Serb military strength.

In the team was General Vernon Lewis, an artillery officer with three combat tours who in 1987 founded a private consulting firm that sells military expertise. It also included his deputy, Gen Carl Vuono, who was army chief of staff during the invasion of Panama and the Gulf war.

Training by the Virginia-based company, Military Professional Resources, is to be funded out of $140m pledged by Saudi Arabia, Kuwait, Malaysia, and Brunei.

The services of MPRI were also used by the Croatian government, and some experts said the US firm's advice was a factor in the success of Zagreb's August 1995 attack on the Krajina region which put to flight about 200,000 Serbs. But MPRI's spokesman, the former defence intelligence chief Gen Ed Soyster, has insisted that the company's advice to Zagreb did not involve weapons training.

No such restriction will apply to the contract with Bosnia, which was last week promised about $100m worth of US weapons, including over 46,000 rifles as well as 45 tanks and 80 armoured personnel carriers. *Bruce Clark, London*

European Union leaves Swiss to swing in the wind

The slow pace of talks on a new bilateral economic relationship is starting to alarm the alpine state, writes **Lionel Barber**. It wants to know if the EU is still interested

The referendum-crazy Swiss are hardly known for swift decision-making, but they are fast losing patience with the European Union in talks on a new bilateral economic relationship. Today in Brussels, Mr Hans van den Broek, Dutch commissioner for external affairs, will present a progress report to EU foreign ministers. The word is he will have little new to say.

Alarmed Swiss officials have appealed to the European Commission to send a "strong signal" that the Union is still interested in a deal before the end of the year. "Without such a gesture, there could be a breakdown in the negotiations," says a senior official.

Failure to reach an agreement could tilt the political balance in Switzerland away from a pro-European camp still dreaming of future EU membership in favour of a nationalist-minded rump. An already awkward relationship with the Union could become more difficult to manage.

The search for a new bilateral relationship began after the Swiss voted in December 1992 not to join the European Economic Area (EEA), under which some non-EU countries gain access to the benefits of the single market. Because 60 per cent of Swiss exports go to the EU and Switzerland remains the EU's second most important export market, it was vital to find some new arrangement.

The EU, irritated at being snubbed in the EEA referendum, was determined to drive a hard bargain. In return for upgraded access to the single market, the Swiss would have to offer concessions on two sensitive issues: freedom of movement of people and increased land transit rights.

After some limited exchanges, the two sides agreed on a package involving six areas with reciprocal benefits: agriculture; research and development; conformity in testing procedures; public purchasing; air and land transport; and the free movement of people. It was agreed that all the elements of the package had to be concluded as a whole.

Some progress has been made, but there are three serious obstacles to an agreement.

- **Freedom of movement of persons.** The EU wants the Swiss to scrap work permit quotas for EU citizens within three years, but is willing to concede a safeguard clause which could reimpose controls if there is an unexpected large influx of immigrants.

Switzerland is ready to open negotiations to drop its quota system, but it is not willing to concede the principle of freedom of movement via automatic abolition of quotas. Immigration is still a sensitive issue in Switzerland where nearly a fifth of residents are non-Swiss. "There is a fear of being swamped by immigrants," says a Swiss official.

- **Road transport.** Last May, the Swiss broke a domestic taboo with an offer to end the 28-tonne weight limit on vehicles progressively from 2001, providing lorry taxes are raised at the same time. The concession was aimed at coaxing the EU to drop its demand to allow EU nationals unrestricted rights to work and settle in Switzerland.

The offer means that from 2005, when a bilateral accord with the Union expires, the Swiss would have to comply with EU transport rules and taxation. But, under a 1994 referendum decision, all freight traffic passing across the Alps will have to go by rail or face penal taxes. France, among others, argues that this is a backdoor method of getting foreigners to pay for high-class rail tunnels.

- **Air Transport.** The EU is offering little more than bilateral traffic rights rather than "cabotage" which would allow Swiss airlines to offer flights from, say, Geneva to Madrid and on to Barcelona or Geneva-Madrid-Paris. The Swiss claim that the EU's present offer is ungenerous, particularly in the light of the impending shift to the "open skies" policy in Europe next year.

On the EU side, complaints are rising about Switzerland's habit of "picking and choosing" through referendums rather than accepting the Union's demands for common policies and rules. Spain is particularly outspoken. "The Swiss want everything for eternity, like exporting their cheese," says one diplomat.

A Swiss official admits that the negotiations have again exposed a cultural gap between the Swiss and their EU neighbours. But Switzerland needs a deal more than the EU, which probably explains why the Commission and member states are taking their time – and making the Swiss sweat a little more than they are used to.

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NEWS: INTERNATIONAL

Hanoi complains that it is taking too long to cement economic ties

US-Vietnam frustrations mount

By Jeremy Grant in Ho Chi Minh City

Anthony Lake: told that US companies are suffering *Picture by AP*

As US national security adviser Mr Anthony Lake flew out of the former Saigon yesterday after a two-day visit to Vietnam, he took with him messages of frustration for the Clinton administration from two very different sources.

The first, from the Communist leadership in Hanoi, was that the process of cementing economic ties between the two former enemies is moving too slowly.

The second came from US businessmen he met at the start of his two-day visit to Vietnam on Friday: US companies are suffering as Washington continues to withhold federally-backed export finance and insurance guarantees to Vietnam-related business.

Only a year after Washington normalised ties with Hanoi, closing a chapter of mutual mistrust in the two decades that followed the end of the Vietnam war in 1975, cracks have appeared in the relationship.

Vietnam is eager for access to US markets for its robust textile, cashew nut and coffee exports. With the opening of the US embassy in the Vietnamese capital in August last year, hopes were high in Hanoi that normalisation of economic relations would follow, with coveted most favoured nation (MFN) trading status coming, possibly this year.

But those hopes were dashed early this year when it became clear the two sides did not see eye-to-eye on the issue of an all-embracing trade pact. Two-way trade last year was worth only about $450m. Fact-finding missions from Washington quickly established that Vietnam's complex tariff structure and range of non-tariff barriers meant the trade deal would take time to tie up.

The US is keen to see Vietnam adopt a tariff-reduction regime that would prepare it for World Trade Organisation membership. Yet the Vietnamese, while wanting MFN, apparently fear that allowing the US reciprocal access would mean US goods swamping Vietnam at a time when the country is trying to shore up production of what few goods it makes domestically.

"It appears there are different interests, different goals, mechanisms and policies," Mr Le Van Triet, Vietnam's trade minister, said recently.

Although progress has been made, notably the opening of a US commerce department office, the atmosphere has been soured by periodic criticism from Hanoi. It has accused the US of backing "peaceful evolution" plots – shorthand for encouraging multi-party democracy – and FBI campaigns against alleged Vietnamese spies on US soil.

Vietnamese impatience to see more progress on the economic front comes up against Washington's commitment to accounting for the 1,606 US service personnel listed as missing in action from the war as its top priority. It also rubs up against US presidential politics.

Analysts say that, in an election year, it will be difficult for the Clinton administration to move too fast on the economic front without upsetting right-wing interests who could easily make Mr Clinton's dodging of the Vietnam draft an electoral issue.

In the meantime, US businesses are caught in the middle. Although the US ranks sixth among foreign investors with $1.2bn pledged, companies such as Boeing, the aircraft maker, earth-moving equipment manufacturer Caterpillar and General Electric complain they are unable to compete without Export-Import Bank financing and insurance from the Overseas Private Investment Corporation.

Nor can US banks arrange financing for US products to be used in capital-intensive infrastructure deals, which are becoming more common.

"There is a perception that buy American is good. That perception won't be around too long if they're going buying other people's products," said one Hanoi-based US banker.

Cheap labour loses its allure for investors

By Guy de Jonquières

Access to cheap labour is a rapidly decreasing priority for US manufacturing companies investing abroad, which are chiefly interested in establishing positions in large and prosperous markets with world-class production standards, a survey* has found.

The survey, by the Deloitte & Touche Consulting Group, says 76 per cent of total investments last year in the 10 foreign locations most favoured by US manufacturers was in high-wage countries, led by Sweden.

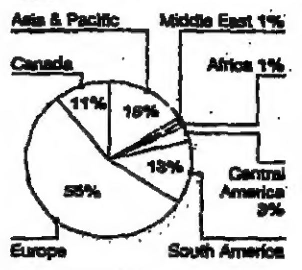
Most of the rest was in Brazil, the second most popular foreign location overall. Brazil captured about $4bn of US manufacturing investment, putting it slightly ahead of Britain, the third most popular country.

Although Sweden absorbed more than $9bn of US manufacturing investment, $7bn was accounted for by the merger of Pharmacia, the Swedish pharmaceuticals company, with Upjohn of the US.

In spite of growing competition from Asia, Europe remained the first choice of foreign location for US companies in all industries, capturing $50bn of the record $97bn which they invested abroad last year.

US manufacturing FDI: where it goes

1995



Source: Deloitte & Touche

US companies' FDI (foreign direct investment) in Europe was three times higher than in 1994, while flows into Asia rose by two-thirds and those into Latin America by more than a third.

Deloitte said that despite Europe's relatively low economic growth rate, it continued to attract US companies because of familiarity with its business culture, low commercial risks and its proximity to emerging markets in central and eastern Europe.

By contrast, the decreasing importance of low wage costs was reducing the appeal of many developing countries to foreign investors. "A country's ability to meet worldwide best-practice standards is more critical for competing in the global market than accessing cheap labour," the survey said.

"Moreover, economic growth tends to push wages up, rendering labour cost considerations less important. Specifically, manufacturing industries require flexibility and a developed work skill level to ensure product quality that meets world standards."

Most of last year's foreign direct investments by US companies were financed by reinvested earnings and took the form of mergers and acquisitions. Almost 900 such deals were reported last year, with a total value of $53bn, 40 per per cent more than in 1994.

Earnings on US foreign direct investment rose 35 per cent to a record $91bn last year, reflecting a particularly strong performance by the oil, chemicals, computer and semiconductor industries.

**Further details from Dr Martin Ford, Deloitte & Touche institute for manufacturing research, New York. Tel: 212-436 4487. Fax: 212-436 5957.*

Action on sweatshops, Page 4

Thai central bank chief under fire

By William Barnes in Bangkok

There are renewed fears for the integrity and independence of Thailand's respected central bank after attempts to link its new governor, Mr Rerngchai Marakanond, to an alleged land scandal involving the prime minister's family.

Opposition MPs alleged in parliament last week that Mr Rerngchai paid an inflated Bt465m ($18.3m) in 1994 to the daughter of Prime Minister Banharn Silpa-archa for 30 acres of land.

The land, which Ms Kanchana Silpa-archa bought for Bt29.5m in 1990, was acquired by the Bank of Thailand as the site for a printing plant. Mr Rerngchai's predecessor, Mr Vijit Supinit, resigned on July 2 after a barrage of allegations that he played politics and was a sloppy regulator.

The Bangkok financial community had hoped that Mr Rerngchai would re-establish his demoralised institution's international reputation for cool-headed competence.

"The Bank of Thailand's reputation is a vital prop to investor confidence," said a western stockbroker yesterday. "Anything that stops it getting back on the right track is bad news – especially when the political situation is unstable and government appears to be having trouble running the economy."

The Siam Commerical Bank Research Institute said at the weekend it expected the current account deficit to rise to 8.9 per cent of gross domestic product this year, against 8.1 per cent in 1995, because of sluggish export growth.

The opposition will attack the premier for the land sale during next month's no-confidence debate. A deputy finance minister and a deputy interior minister had to resign after the opposition attacked the government's reputation for sleaze in the last such debate in May. Mr Surakiart Sathiratha, finance minister, who was widely seen as lacking the stature to protect the Bank of Thailand from political demands, was also replaced.

INTERNATIONAL NEWS DIGEST

Swiss unmoved on IMF gold sale

Britain and the US appear to have failed to persuade Switzerland to drop its opposition to sales of part of the International Monetary Fund's gold reserves to help finance debt relief for poor countries. Officials at the Swiss Finance Ministry said selling and reinvesting IMF gold would set an undesirable precedent and was dangerous when the organisation was lending heavily to countries such as Russia and Mexico. Selling IMF gold might also give fresh momentum to a parliamentary initiative to sell part of Switzerland's gold reserves to finance new trans-Alpine tunnels, they warned.

The US and UK have been lobbying to win approval for IMF gold sales, not least because they do not want to have to inject fresh cash contributions themselves to pay for the proposed debt relief initiative. The income from the sale and reinvestment of $2bn of the IMF's $40bn gold stock would help pay to put its concessional "enhanced structural adjustment facility" (Esaf) on a permanent footing and extend the maturity of Esaf loans to poor countries. *Robert Chote, London*

Borneo dam contracts awarded

Ekran, the Malaysian company organising the construction of a controversial dam in the forests of Borneo, has awarded contracts worth M$4.5bn ($1.8bn) to four of its associate companies. Ekran executives said the contracts represent about 35 to 40 per cent of the value of a project to build the Bakun hydro-electric dam in the eastern Malaysian state of Sarawak. The main contract was won by a consortium led by the Swiss-based ABB Asea Brown Boveri and Brazil's CBPO.

The contracts awarded to Ekran's associate companies include installing submarine cables, quarry operations, maintaining and operating the dam, supplying steel and erecting on-site living arrangements. The contract winners are Wembley Industries, PWE Industries, Granite Industries and Pacific Chemicals. The shares of all were suspended last week but resume trading today. *James Kynge, Kuala Lumpur*

US-Japan semiconductor talks

A successful resolution of US-Japan semiconductor negotiations at a meeting of Asia Pacific Economic Co-operation forum trade ministers in New Zealand this week appears unlikely. US and Japanese trade officials met several times over the weekend in Christchurch but appeared to have made little progress. The semiconductor accord, which guarantees US producers 20 per cent of the Japanese market, expires at the end of the month, and both sides say they hope to reach a new agreement by then, although Japan prefers a multilateral rather than bilateral approach. *Bethan Hutton, Christchurch*

NZ sell-off compensation

The Auckland High Court has ordered the government to pay debenture holders of the failed investment company Equiticorp nearly NZ$189m ($130m) over the way it sold the former state owned enterprise New Zealand Steel. The ruling [illegible] political outcry, as the taxpayers' total bill for [illegible]

NEWS: INTERNATIONAL

Atlanta readies for the first Commercial Games

This month's Olympics have been organised and financed from the outset by private interests. **Richard Waters** reports

The giant red bottle, with its crown of plastic stars, is like a beacon in the heart of downtown Atlanta.

The first waves of the international army of participants and fans that make up the modern Olympics are washing around it.

Families are lining up in front of the monument to have their pictures taken. There is no doubting where this is: Coke City, USA.

When the world tunes in its television set for the opening of the Olympic Games on Friday, it will be treated to a spectacle only an American city – and probably only one as ambitious and brazenly commercial as Atlanta – could produce.

Coca-Cola, founded in Atlanta, is only one of the giant corporations that is making this the first commercial Olympics – organised and financed from start to finish by private interests, with no involvement from city, state or federal governments.

Alongside the 165ft high Coke monument downtown stand such consumerist icons as a vast, sweeping Nike symbol and the logo of AT&T, capping the towering pavilion of the Olympic Village.

As Mr Jerry Bartels, the president of the chamber of commerce, says: "Atlanta has taken the privatisation of the Games to the next level." For the Olympics, things may never be the same again.

Sponsorship has brought in nearly a third of the $1.7bn it has taken to stage this extravaganza. Another $450m has come from NBC, which has bought the rights to screen the Games in the US – it will recoup the money by selling adverts to companies such as Coca-Cola, whose total promotional spending for the games is generally put at around $500m.

Together with the forest of billboards, the sidewalk kiosks and the ubiquitous merchandising, it all adds up to an unparalleled commercial hoopla.

Purists may question whether the Olympic spirit can survive in this blizzard of commercialism.

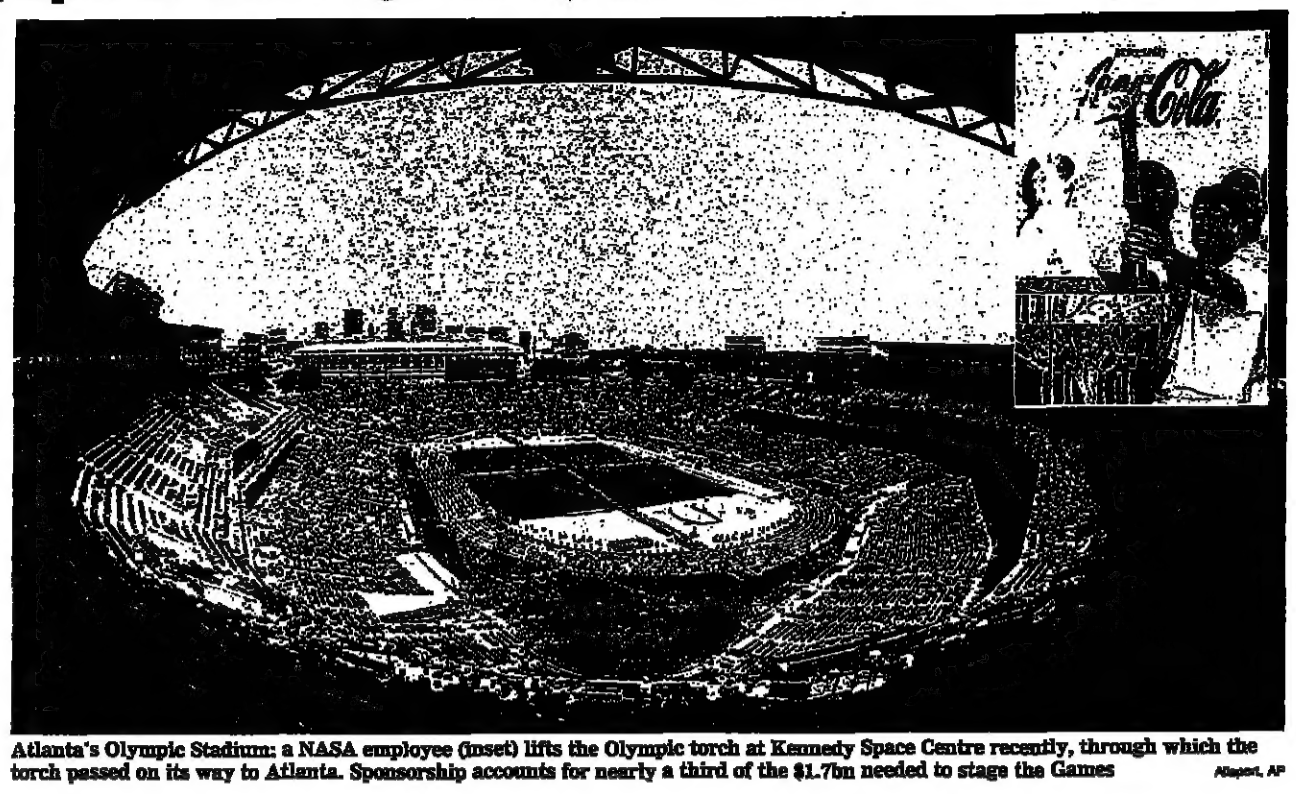
But this city has never had any hang-ups about putting commerce at the centre of its civic life. Any suggestion that amateur ideals have been crushed in the rush to cash in draws blank looks.

Mr Stu Cross, vice-president in charge of Coke's Olympics campaign, points out that nearly two-thirds of the money from this event comes from corporate pockets. "If you want a Games that is only a third the size, you can do without sponsorship," he says.

Like other businessmen in Atlanta, he argues that commercial backing is fine as long as it "enhances the fans or the consumer experience".

Commerce has always been close to Atlanta's heart, ever since its position at the centre of the South East's rail networks made it the mercantilist capital of the region.

It was commerce that helped Atlanta through the traumas of the Civil Rights era. Atlanta, the home of Dr Martin Luther King, never succumbed to the worst of the violence. With its endless self-promotional zeal, Atlanta has ever since branded itself "the city too busy to hate".



Atlanta's Olympic Stadium: a NASA employee (inset) lifts the Olympic torch at Kennedy Space Centre recently, through which the torch passed on its way to Atlanta. Sponsorship accounts for nearly a third of the $1.7bn needed to stage the Games *Allsport, AP*

Today, if you listen to the local boasts, this has been supplemented by a pragmatic partnership between the white business establishment and a black civic administration which has seen the fruits of economic growth spread widely.

"We are an example of what South Africa is trying to accomplish – black and white communities working together," says Mr Steve Labovitz, chief of staff to Atlanta's mayor, Mr Bill Campbell.

There is some truth and much hyperbole in all of this. Atlanta has a bigger black middle class, and more black entrepreneurs, than most big American cities. Affirmative action – under attack in state and federal courts across the nation – remains a largely unquestioned way of life in Atlanta.

Nearly a third of the construction work for the Olympics was handed to minority-owned businesses as a matter of course.

Yet this bland image, of races living contentedly in commercial harmony, tells only part of the story.

Equality of opportunity is still far from a reality. This is confirmed in conversation with black people in Atlanta.

Mr Harold Swinton, the city's postmaster – who has the unenviable job of seeing that letters go on being delivered through the Olympic congestion – says the "Atlanta Way," which relies on partnership, has worked.

But he adds that opportunities for blacks exist only inside the city centre: the burgeoning metropolitan area beyond that has seen the greatest economic advances of recent years remains dominated by whites.

A black professional woman, who refuses to be named, says it is true that black entrepreneurs have fared better here than in the crumbling inner cities of the North East. But the vast bulk of the wealth in and around the city is controlled by the white business elite that runs its biggest companies.

The arrival of the Games will serve to bring issues such as these under the international microscope, along with the city's record on human rights. Typical of groups seeking to use the Games to publicise such issues is Amnesty International, which next week hopes to bring Georgia's application of the death penalty into the international spotlight.

"It's not that Georgia has executed more people," says Ms Linda Thurston, who heads the organisation's work in this area. "But", she adds, "Atlanta won the right to stage the Games in part by promoting itself as the world's capital of human rights: it is only right that its record in this area should be subjected to examination."

Atlanta's city fathers are prepared to brave this scrutiny for what they believe will be the greater good flowing from two weeks of massive international exposure.

This will act as one huge commercial for the city that will establish Atlanta as what Mr Labovitz calls "a great place to do business" – a low-cost, liveable place that should appeal to companies around the world.

The city, though, hardly needs the Olympics as an engine of growth. It has led most parts of the US in job creation for the past five years and is the fastest-growing metropolitan area in one of the US's fastest growing regions.

Instead, it seems, the Games are an exercise in growing up, a chance for the city to shake off its lingering insecurities and stand toe-to-toe with the great cities of the US – and the world.

Atlanta "has a tremendous ego, a tremendous need to be known and accepted," says Mr Bartels. "The Olympics has done that for us."

Religious challenge to Netanyahu averted

By Avi Machlis in Jerusalem

A potential challenge to the government of Israeli prime minister Benjamin Netanyahu, sparked by violent clashes between ultra-religious Jews and police in Jerusalem over the weekend, was quietly resolved yesterday.

Thousands of black-clad ultra-orthodox Jews took to the streets on Saturday after an order signed by Mr Yitzhak Levy, religious transport minister, to close a Jerusalem street on the Jewish sabbath in prayer times was overruled by Israel's High Court. Protesters hurled rocks at police and secular counter-protesters. Police said 18 protesters were arrested.

Closure of the boulevard, which cuts through a religious neighbourhood, has been the focus of an ongoing debate and has become a symbol of religious-secular strife in Israel.

Benjamin Netanyahu, who returned to Israel last night from his first US visit as prime minister, said the positions of his new government had been received "with great understanding" *Reuter*

Mr Avraham Ravitz, member of parliament from the small religious United Torah Judaism party, a coalition partner in the newly formed government, yesterday described the incident as a "pogrom". He threatened to raise a no-confidence motion in parliament and muster support from other religious parties if top Jerusalem police officers were not immediately fired.

But later in the day Mr Ravitz retracted his threat, saying he was assured the incident will be investigated further.

Political analysts said the religious party was flexing its muscles and sending a potent message to Mr Netanyahu, whose coalition includes three religious parties, that they will not be silent over religious issues.

■ An accord on ceasefire monitoring in Lebanon was reached at the weekend in Washington between the US, Israel, Syria, France and Lebanon. The accord was reached in prolonged talks after the US brokered a ceasefire in April which ended Israel's 17-day blitz against Hizbollah guerrillas in South Lebanon.

US takes up arms against sweatshops

Mr Robert Reich, the US labour secretary, this week steps up his campaign to "eradicate sweatshops from the American garment industry and erase the word entirely from the American lexicon".

He has convened a fashion industry forum in Arlington, Virginia tomorrow, bringing together retailers, manufacturers, designers, models and consumers to raise awareness of the extent of sweatshop labour in the garment industry and to discuss ways of combatting it.

Mr Reich has claimed that there are about 12,000 sweatshops in the US, paying workers less than the US minimum wage of $4.25 an hour.

The event's publicity value has been boosted by the involvement of Kathie Lee Gifford, a very American celebrity – a perky daytime TV talk show host married to a sports commentator.

A few weeks ago millions of viewers watched her cry on air as she claimed she had no idea that the clothing sold with her name on the label by the Wal-Mart retail chain was manufactured in sweatshop conditions in Honduras and New York by girls earning as little as 31 cents an hour.

Ms Gifford has now reached an agreement with a company which sends independent inspectors to foreign factories where goods are produced for the US market, to ensure that those making the clothes earn at least the minimum wage in safe conditions.

Celebrities have been conscripted in war against the use of illegal cheap labour at home and abroad

Wal-Mart said the involvement of the independent inspectors would address the problem of work conditions and help prove to the public that the company cared about their overseas operations.

Few US consumers had realised that imported clothes sold by leading American retailers might have been manufactured by underpaid teenagers. Even those buying US-made clothes could not be sure it was cut and sewn in humane conditions.

Ms Griffiths's involvement started when the National Labour Committee, a pressure group, was inspecting a sweatshop in Honduras. Mr Charles Kernaghan, the committee chairman, stumbled upon a Kathie Lee label which said some of the profits would be donated "to various Children's Charities" – with a picture of a smiling Ms Gifford on the tag.

After several unsuccessful attempts to contact the star, the NLC arranged for Ms Wendy Diaz, a 14-year-old Honduran worker from the factory, to travel to the US to speak on behalf of her co-workers backing Mr Kernaghan's assertions that children in other countries were being "sacrificed" for children in the US.

Other retailers have felt the strength of consumer pressure. The Gap, a trendy US clothing chain, faced with unfavourable publicity and a consumer boycott, has strengthened its "code of vendor conduct" adopted last December by including standards relating to child labour, forced labour and working conditions.

In co-operation with the NLC and other groups it formed an independent monitoring working group to help ensure that its sub-contractor in El Salvador "continually operated in full compliance with Salvadoran law and Gap's 'code'".

The Disney Corporation has recently started monitoring suppliers' factories closely, and J.C. Penney and Talbots, among other leading US chain stores, threatened to terminate all business with their suppliers if violations were found.

Other celebrities who have attached their names to products are also coming under scrutiny. Michael Jordan, the basketball star, lends his name to Nike's Air Jordan sneakers. Mr Joel Joseph, head of the Made in the USA Foundation, a pressure group, says the shoes are produced "in Indonesia by 11 and 12-year-old girls making 22 cents an hour". Nike has insisted the shoes are made in Taiwan by workers who average $800 a month in pay.

Labour rights crusaders may have stumbled on Kathie Lee Gifford as a weapon in their battle, but consuming US interest in every aspect of the public and private lives of "celebrities" has turned to their advantage.

The campaign was influential in ensuring the passage of a New York "hot goods" law banning the sale of clothing produced in sweatshops.

It has also made a convert of the woman herself: "I had no idea of what was happening but now that I know I will do everything I can to help".

Olessia Smotrova

INTERNATIONAL PRESS REVIEW

Helms-Burton the target for media ire

CANADA

By Bernard Simon

US moves to punish foreigners doing business in Cuba could be bad news for several dozen Canadian companies. But for Canadian politicians and the domestic media, the furore over the Helms-Burton law has presented a great opportunity to score some points.

Helms-Burton, which was rushed through Congress in March after the Cuban air force shot down two small aircraft belonging to Cuban exile groups in the US, has given Canadians a chance to satisfy two basic cravings: to stand up to the big bully across the border, and to be noticed by the rest of the world for something other than Mounties, maple syrup and ice hockey.

The media has been universally critical of the new law. "US won't topple Castro this way," ran the headline above an editorial in the *Financial Post*, which went on to predict "the only thing this bill will achieve is international trade friction".

Ottawa has been in the forefront of the international outcry against the law, which provides for various penalties on foreign companies "trafficking" in Cuban assets confiscated by the Castro regime.

Canadian mining, tourism and energy companies are among the most active investors on the island. The most prominent is Toronto-based Sherritt International whose interests include a 50 per cent stake in a big nickel mining operation expropriated by the Castro government after the 1959 revolution. Its chairman, Mr Ian Delaney, is one of a handful of foreign businessmen close to President Castro.

Washington used part of Helms-Burton for the first time last week to warn seven Sherritt directors and executives that they and their families would be barred from the US unless the company pulled out of Cuba by the end of August.

Even mass-market tabloids, which normally pay scant attention to trade policy, had a field day. The *Toronto Sun* blurted out at the top of page one last Thursday: "US tells Canuck execs over Cuba: Y'all don't come back." A group of church and aid groups has urged Canadian holidaymakers to shun Florida if the Clinton administration goes ahead with sanctions against foreign companies.

Canadian ire has so far been directed mainly at Senator Jesse Helms, the arch-conservative chairman of the Senate foreign relations committee and one of the law's architects. Mr Lloyd Axworthy, Canada's foreign minister, noted that "even extinct volcanoes can erupt from time to time".

Some of Mr Helms' assertions have played into the Canadians' hands. He complained recently about the "hyprocisy" of Canada and European countries in opposing the law. "After all, the US has rescued every one of them from tyranny at one time or another," he claimed.

In fact, the only US military expedition into Canada, in 1812, was designed to invade, not rescue. The *Toronto Star*, Canada's biggest daily, retorted: "What tyrant are we supposed to thank them for saving us from? Ho Chi Minh?...If he doesn't want the rest of the world to see *him* as a tyrant, Clinton will listen to American business leaders who want him to put a wrapper on nutbars like Helms."

The attack on Washington has been so single-minded that contradictions in Canada's own foreign policy have gone largely unnoticed.

Mr Axworthy, who is on the left wing of the ruling Liberal government, normally makes respect for human rights his top foreign policy priority. He urged other Commonwealth members earlier this month to impose oil sanctions against Nigeria. But neither Mr Axworthy nor the local media has paid much attention lately to President Castro's human rights record.

Sherritt has complaints of its own about media coverage of Helms-Burton. Ms Patrice Merrin-Best, vice-president for corporate affairs, said "people have not yet paid enough attention to the underbelly of this legislation".

She was referring to ex-Cuban business interests, notably the Bacardi rum family, that played a leading role in drafting the law.

Bacardi faces increased competition as a result of an agreement between Pernod-Ricard, the French spirits maker, and the state-owned Havana Rum and Liquors that runs Bacardi's old distilleries in Cuba. Foreign companies are likely to face a slew of legal claims if President Clinton decides not to waive the most contentious part of Helms-Burton, which gives US citizens the right to sue "traffickers" in Cuban property. His decision is due to be announced by tomorrow.

Sherritt would prefer the media spotlight to be trained on which companies such as Bacardi stand to gain from Helms-Burton than on what it has to lose.

INTERNATIONAL NEWS DIGEST

SA police face corruption probe

South Africa is investigating over 800 police corruption cases and about 100 people, including senior police officers, have been charged, the acting national commissioner said yesterday.

Mr Morgan Chetty said in a statement crimes under investigation included drug trafficking, vehicle theft, arms smuggling and sales of police files.

Those arrested included two detectives from a fraud squad, two police superintendents and civilians who allegedly paid bribes.

The anti-corruption drive is part of a national strategy to fight one of the world's highest violent crime rates, which fuels emigration by the relatively affluent and wariness among potential foreign investors.

The 140,000-strong police force declared an all-out war on crime a month ago and vowed to arrest the 10,000 most wanted suspects within a month. The deadline passed on Saturday and police are expected to announce their achievements this week.

Almost 2m serious crimes were reported nationwide last year, including 36,888 rapes, 18,983 murders and 66,838 armed robberies.

Half of the cases were solved. *Reuter, Johannesburg*

Flotilla avoids clash with Cuba

A protest flotilla organised by Miami-based Cuban anti-communist exiles avoided confrontation with Cuban authorities at the weekend by staying outside Cuban territorial waters, to the relief of both Washington and Havana.

As Cuban and US coastguard vessels watched each other across Cuba's 12-mile territorial limit, the "Democracy Flotilla" of a dozen boats and a few small aircraft held a memorial service on Saturday to mark the second anniversary of the 1994 sinking of a tugboat carrying Cuban refugees fleeing the island.

The US government, which is currently lobbying the United Nations Security Council to condemn Cuba for the shooting down on February 24 of two small US aircraft, had urged the exile flotilla not to cause an international incident by violating Cuban waters.

Havana, which has rejected a UN report which found the downing of the aircraft took place in international waters, had pledged to use all necessary means defend its sovereignty against the weekend flotilla. *Pascal Fletcher, Havana*

Arms barge sinks in Suez Canal

An Egyptian military barge which was carrying ammunition and light weapons sank in the Suez Canal but traffic through the waterway was unaffected, canal authorities said yesterday.

The 7,500-tonne barge sank late on Saturday at the entrance of the Bitter Lakes and divers were trying to gather its shipment from the bottom of the canal. The canal authorities did not say how or why the barge sank. *Reuter, Ismailia*

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Millennium Bridge Competition

2000

Organised by the Financial Times in consultation with Southwark Council and the Corporation of London

The approach of the Millennium gives London the opportunity to create a new pedestrian bridge across the Thames in the heart of the capital. Sited at Bankside (home of the Globe Theatre and the new Tate Gallery of Modern Art) to the south, the bridge will link this developing area with the City of London (and St Paul's Cathedral) to the north.

A competition brief has been prepared following a period of consultation led by the Financial Times. Architects, artists and engineers from throughout the world are invited to submit initial design proposals. A shortlist of up to five entrants will be chosen by an international judging panel, chaired by the Chairman of the Financial Times, to develop their schemes in a second stage. Each shortlisted design team will receive an honorarium of £5,000. The winner will be announced in December.

● Timetable of Competition

Closing date for first stage entries:
Wednesday 25 September 1996

The winning design team will be announced in December, 1996

● How to enter

Competition details are available from: RIBA Competitions, Competitions Office, 8 Woodhouse Square, Leeds, LS3 1AD.
Tel: +44 113 2341335 Fax: +44 113 2426791

There is a non-returnable registration fee of £50 (including VAT) payable to RIBA/Financial Times Millennium Bridge Competition.

All enquiries should be addressed to:
RIBA Competitions Office

● Judging panel

The judging panel will be chaired by David Bell, Chairman of the Financial Times and includes architects, engineers and representatives from the local authorities, business and the media.

The judges are: Ana Patricia Botin, President, Banco Santander de Negocios; Michael Cassidy, Chairman of Policy and Resources Committee, Corporation of London; Anna Ford, Broadcaster; Councillor Jeremy Fraser, Leader of Southwark Council; Jacques Herzog, Architect; Frank Newby, Consulting Engineer; Sir Michael Perry CBE, Chairman, Unilever; Sir Philip Powell, Architect and Director, Deutsches Architekturmuseum.

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FINANCIAL TIMES

Component makers target Asian business

By Nick Flaherty and Stefan Wagstyl in London

British electronics components manufacturers are joining forces to help sell their products to South Korean and other east Asian companies establishing operations in the UK.

The UK government is backing their plans for the establishment of the Pacific Rim Electronics Business Association, which will co-ordinate sales and marketing missions to east Asia.

The plans have been disclosed following last week's announcement that LG Group, the Korean conglomerate, is to build a £1.7bn ($2.6bn) electronics complex in south Wales. LG plans to buy most of its components in the UK.

The association will concentrate on east Asian countries, excluding Japan, for which a separate organisation, the Japanese Electronics Business Association, already exists.

The new group is to be inaugurated in October by Mr Ian Lang, the UK's trade and industry secretary. The launch will coincide with the association's first overseas event – a three-day seminar on the Singaporean electronics industry in Singapore.

However, the association, which has 130 member companies, has already started work with a visit to Korean-owned factories in north-east England.

The association aims to create a network of suppliers committed to meeting the needs of Pacific Rim companies. It plans to pool knowledge about potential customers and share it with British companies with little international experience.

Mr Keith Etherington, the managing director of the UK subsidiary of Philips Components, an arm of the Dutch electronics group, said it was increasingly important to meet customers early to get British parts designed into their products. Relationships with Korean companies were less developed than ties with Japanese groups.

The Pacific Rim association hopes to build on the success of the Japanese-linked organisation which companies credit with securing big increases in components sales. Since its foundation in 1991, sales of UK parts to Japanese electronics companies in the UK have more than trebled from £150m in 1992 to £470m in 1994.

The recent surge of investment in the UK from east Asian electronics companies, excluding Japanese groups, suggests that there could be considerable potential for UK parts makers. The LG complex, which comprises a semiconductor plant and a factory making television picture tubes and televisions, will be by far the largest Korean-owned manufacturing site in the UK. Other plants include Samsung's £450m consumer electronics factory and LG's microwave factory, in the north-east. Sites operated or planned by non-Korean groups include a £260m television tube plant being built in Scotland by Chunghwa Picture Tube of Taiwan and a £230m semiconductor factory under construction in south Wales for QPL International Holdings of Hong Kong.

Politicians seek to mend relations over N Ireland

By John Kampfner, Chief Political Correspondent

Sir Patrick Mayhew, the Northern Ireland secretary, will today set about restoring a semblance of authority to the British government's handling of Northern Ireland and repairing ruptured relations with the Irish government.

In a statement to the House of Commons, he will urge the constitutional parties – especially the moderate nationalist Social Democratic and Labour party – not to give up on multi-party talks and to help drag Northern Ireland back from the brink of lawlessness.

Ministers yesterday sought to justify last week's decision by the Royal Ulster Constabulary, the Northern Ireland police force, to bow to Protestant threats and allow a Protestant loyalist Orange parade through a Roman Catholic district in Portadown.

However, officials said Sir Patrick was reluctant to agree to a request from Mr Dick Spring, the Irish foreign minister, for a full session of the Anglo-Irish inter-governmental conference to be convened this week to discuss the crisis.

The British would prefer to hold a less high-profile meeting on the fringes of the multi-party negotiations, which resume at Stormont, near Belfast, tomorrow under the chairmanship of Mr George Mitchell, the former US senator.

The depth of anger in Dublin at the behaviour of the RUC and the UK government was underscored by Mr Spring. On BBC Television yesterday he said relations in recent years had been based on consultation and co-operation. "This has been sadly lacking in the last few days," he added. "There has been very little consultation and no co-operation."

The US administration has refrained from following the Irish in publicly condemning Mr John Major, the UK prime minister, and his ministers.

However, officials said senior White House figures were "beside themselves" when told of last Thursday's actions by the RUC and the British response since then. They said it would be harder for the administration to turn down a request by Mr Gerry Adams, the Sinn Féin president, for a visa to the US.

Labour, the UK opposition party, said it would not end the bi-partisan Northern Ireland approach.

Such has been the polarisation of opinion, that the SDLP fears many of its supporters will transfer allegiance to Sinn Féin, or the Irish Republican Army. "I just dread to count the number of new recruits the IRA has gained," said an SDLP councillor.

Dismay grips peace seekers

New Ulster violence leave governments floundering and furious

A sense of desperate consternation yesterday gripped all politicians, diplomats and officials involved in the tortuous search for peace in Northern Ireland. The events of the past week, culminating in the death of a nationalist protester and the resumption of republican bombing in the province, have left the British government floundering and the Irish and US governments furious.

Privately, senior MPs acknowledge that the retreat of the Royal Ulster Constabulary, the Northern Ireland police force, at Portadown and its subsequent street battles with nationalists were the result of a lack of foresight by policy makers.

There has been little public criticism over the past year of the government's handling of the issue. Both main parties have adopted a strict bi-partisan approach – and more responsible politicians have been reluctant to meddle. Conventional wisdom had it that – whatever his weaknesses – Mr John Major, the UK prime minister in the ruling Conservative party government, had a grip on Northern Ireland. Privately, however, doubts have grown.

"Trust is the magic ingredient in Ulster," said one Conservative involved in the day-to-day decision making. "Now that's been sacrificed, we've blown it."

There were always two schools of thought. Some believed that through meticulous planning, sensitivity and flexibility London and Dublin could coax the more extreme elements into discussing a new power-sharing arrangement for Northern Ireland that preserved its loyalty to the British crown but guaranteed greater rights for the minority. This was predicated on an assumption that unionists and nationalists were prepared to reach compromise and were able to rein in the paramilitaries. Economic improvement would buttress the reconciliation.

Others were scornful, arguing that the goals of the two traditions were irreconcilable.

In the two years that followed the original Irish Republican Army ceasefire of August 1994 the government appeared to be guided more by tactics than strategy. Unionist fears that it was going too fast and nationalist frustration that it was not going fast enough were based on a refusal to say where it was going.

Initially, ministers demanded proof that the ceasefire was genuine. This not forthcoming, they switched tack. In early 1995 Sir Patrick Mayhew outlined what came to be known as the three Washington principles: that the IRA accept the principle of arms decommissioning; that it accept the practicalities of arms decommissioning; and that it make an initial hand-over before talks could begin. The third condition dogged the political process at a time when Sinn Féin appeared ready to engage in dialogue.

After refusing to agree to a fixed date for all-party talks throughout last year when Sinn Féin was still espousing moderation, the government finally conceded – but only after the IRA ended its ceasefire in February, with the first of a series of bombs on the British mainland. The timing was a devastating blow to Unionists, who saw it as rewarding violence. For republicans it was too little, too late.

As loyalist mob rule engulfed Northern Ireland last week, Mr Major held talks with Mr David Trimble and the Rev Ian Paisley. The two Unionist leaders emerged from the meeting threatening that unless the government allowed a Protestant parade to proceed through a Catholic housing estate in Portadown, there would be more trouble.

All the while, Sir Patrick Mayhew, the Northern Ireland secretary, was rejecting calls from his Labour opposite number, Ms Marjorie Mowlam, for an independent tribunal to arbitrate on the more controversial routes for Unionist marches. Hours after the riots in Portadown, Sir Patrick acknowledged that it was not such a bad idea after all.

Efforts will now be made to repair the damage. Hopes, however, are not high. "The difference now," said a western diplomat, "is that it won't be so easy for the Brits to tell us that they've got the situation in hand. They are suffering from a certain credibility problem."

John Kampfner


The way it was a century ago

Financial Times

Winnipeg, 13th July. The Orangemen assembled yesterday in large numbers throughout the province to celebrate the anniversary of the Battle of the Boyne. The speakers were everywhere unanimous in condemning the Dominion Government for having promised to introduce remedial legislation regarding the schools in Manitoba, and in endorsing the refusal of the Manitoba Government to restore the separate schools for Roman Catholics.

The Orange Order, founded in 1795, remains the symbol of pro-British Protestant hegemony in Northern Ireland and still has lodges in many countries.

Lloyd's gets US backing for deal

By Ralph Atkins, Insurance Correspondent

Lloyd's of London prepares today for one of its most important annual meetings after winning "overwhelming" backing yesterday from US state securities regulators for a deal that removes a last big hurdle to its recovery plan.

Lloyd's said that securities regulators in states representing 84 per cent of US Names had agreed not to obstruct the insurance market's overall recovery plan, which includes a £3.1bn ($4.8bn) out-of-court offer to lossmaking and litigating Names.

Lloyd's is braced, however, for a rumbustious annual meeting in London's Royal Festival Hall today which has to approve important parts of the recovery plan's financing. A minority of Names – individuals whose assets have traditionally supported Lloyd's – remain angry at the terms they are being offered under the plan and are threatening court action to force improvements.

But Mr David Rowland, Lloyd's chairman, hinted yesterday that any delay forced by a successful legal action would be highly destructive. "People must understand the consequences of what they are doing...it is this or nothing," he said.

Lloyd's is expected to win support for a £440m levy on Names who were underwriting between 1993 and 1995. It will also see off an attempt by rebel Names, at an extraordinary general meeting immediately after the ordinary meeting, to force substantial changes to the recovery plan – including raising an extra £200m from Lloyd's underwriting agencies.

Yesterday's US deal is a relief for Lloyd's because the securities regulators could have prevented Names in many states from taking part in the recovery plan, or derailed the offer by freezing Lloyd's US assets.

Drop in car dealer numbers forecast

By John Griffiths in London

Franchised car dealers still have a future in the UK beyond the year 2000 despite sweeping, information technology-driven change in retailing and distribution systems. But the number of dealers will have to be cut and sales territories expanded if viability is to be maintained, according to a study commissioned jointly by the UK's Department of Trade and Industry and the dealers' own trade body, the Retail Motor Industry Federation.

As one of its main functions, the study, carried out by industry consultants Harbour Wade Brown, compares the competitiveness of UK retailing in an international context. The study describes the UK motor retailing sector as financially weak and with "dangerously" low returns on capital.

However, it is better structured to face the future than dealership networks in all other EU countries, where car unit sales per outlet are much lower on average and where more radical surgery will be required, the study says.

The report is being published soon after a separate forecast from another industry consultancy, Sewells International, which projected a 40 per cent cut in the number of UK franchised dealers, to 4,600 from the current 7,400, within the next decade.

Inadequate returns on new car sales, mistrust between dealer groups and the manufacturers who supply them, and an increasingly urgent need for the franchised trade to recapture after-sales business it has lost to independent garages and fast-fit chains, are identified as some of the challenges facing Britain's motor trade.

Despite claims by consumer groups that the UK is an expensive country in which to buy new cars, the study finds that profit margins available to dealers in the UK on new vehicle sales are "significantly" below those in other European countries, and even the US, mainly because of the unusually large number of manufacturers – more than 50 – present in the UK market.

However, profits on used car sales, the servicing of newer cars (third or fourth owners typically are unable to afford franchised dealers' high labour charges) and tight cost controls to date have allowed UK dealers to make better pre-tax profits than counterparts in other European countries, although they trail behind dealers in the US, the study finds.

It produces statistics showing that more than half of franchised dealers' gross profits have been coming from servicing.

However, this is set to decline significantly as a result of Western carmakers progressively improving quality and reliability towards Japanese levels.

Much of the growing financial professionalism of the motor trade is attributed to the increased presence of large groups, the top 100 of which account for nearly 40 per cent of the 2m new cars, approximately, that are sold in the UK every year.

Carmakers are seen as reluctant to trust such groups and allow them to innovate on their own terms. This is partly through a reluctance to see any significant shift in the balance of power between retailers and manufacturers – in the way that supermarkets, rather than food producers, dictate terms in the grocery sector.

However, the study concludes: "The industry as a whole is in need of major structural changes; they will take longer, and be far more painful, if the relationships between the principal players fails to improve."

UK NEWS DIGEST

Row over BBC comes to head

The row over the future of the BBC World Service will come to a head this week both in the House of Lords and before a House of Commons select committee. Mr John Tusa, a former managing director of the World Service and an uncompromising critic of the BBC plans will appear before the foreign affairs committee on Tuesday. Mr John Birt, the BBC director-general, and the man who has introduced a radical restructuring of how the BBC is managed appears before the select committee on Thursday. Also on Thursday opposition peers are expected to use the last Parliamentary session on the broadcasting bill to raise the World Service issue.

In an open letter to peers Mr Tusa yesterday appealed to the House of Lords to call on the chairman of the BBC Sir Christopher Bland and Mr Birt to postpone the changes which "threaten to do irreparable damage to this institution". Under the proposed changes the World Service would retain its own commissioning executive but actual programmes would be made in two other directorates – BBC News and BBC Production. The BBC argues that savings are needed at the World Service to cope with tighter budgets being imposed by the government.

Raymond Snoddy, London

■ BUSINESS OPINION

Optimism on order books wanes

UK businesses are less optimistic about their order books than at any point for nearly four years, casting doubt on the Treasury's hopes of a sharp rebound in economic activity before the general election. The proportion of companies expecting a fall in new orders has increased from 33.5 per cent in the second quarter to 40.5 per cent in the third, according to the latest survey by Dun & Bradstreet, the business information group.

If the economy fails to rebound as expected in the second half of the year, this will make the outlook for the public finances look even grimmer than it does already and limit scope for tax cuts. The Dun & Bradstreet survey showed that confidence has deteriorated especially among wholesalers and service industries. In contrast, confidence about new orders picked up among manufacturers, although not sufficiently to reverse the decline seen in the previous quarter.

"The deterioration in optimism for new orders bodes ill for the chancellor's hopes of gross domestic product growth reaching 2.5 per cent in 1996", said Mr Philip Mellor, senior analyst at D&B.

Robert Chote, London

■ NUCLEAR PRIVATISATION

British Energy shares at 203p

The government will raise £1.4bn ($2.2bn) from the sale of British Energy, the nuclear utility, after investors decided it was worth only 203p a share. The shares will be listed and begin trading in London today. Together with £700m of debt, the government will raise £2.1bn – some £500m less than it had estimated a year ago and well below the estimates of its financial adviser, BZW, of £2.4bn to £2.8bn. BZW said the result was not such a disappointment, given the fall in the utilities sector of the market and negative sentiment towards the company.

The offer to big investors, which ended on Friday, was two-and-a-half times subscribed – the same level of oversubscription as the retail offer to small investors. At 203p a share, British Energy will come to the market at a yield of 8.44 per cent, which after adjustment for it being partly paid, gives an effective yield of 8.7 per cent.

Simon Holberton, London

■ BSKYB

New rugby tournament possible

British Sky Broadcasting plans to put together a new rugby union tournament involving England, South Africa, Australia and New Zealand if the existing Five Nations championship involving England, Ireland, Scotland, Wales and France fails to survive a row over television rights. The satellite broadcaster, which last month completed a £87.5m ($136m) deal with the English Rugby Football Union for all games played at the Twickenham stadium near London, was yesterday assessing the implications of the decision by three members of the Five Nations group to exclude England from the championship.

In a statement yesterday the English RFU expressed disappointment and said that it "remained committed to finding a solution and seek to continue talks with the relevant parties with a view to preserving the Five Nations championship."

Raymond Snoddy, London

■ NATURAL GAS

Industry warns of usage threat

The growth in natural gas usage could be constrained if British Gas is able to persuade Ofgas, the gas industry regulator, to relent on its tough price control proposal for TransCo, BG's pipeline monopoly. Some North Sea gas producers and shippers say they are worried that gas could lose ground to other fuels if British Gas succeeds in persuading Ofgas to maintain the present method of determining transportation charges.

They claim the methodology is "fatally flawed" in spite of it having been accepted by the Monopolies and Mergers Commission in 1993. They also say that it puts "gas as a whole at a disadvantage."

Producers complain that the current system gives British Gas £300m a year in excess returns. This, they say, constitutes a large and unnecessary expense in the middle of the gas chain between North Sea producer and British commercial and residential consumers.

Robert Corzine, London

THIS WEEK

Kenyans queue for Aids nostrum

DATELINE

Nairobi: Kenya's prudish approach to the epidemic means that more death and trouble is in store, writes **Michaela Wrong**

On the wall of Professor Arthur Obel's office hangs a framed copy of Rudyard Kipling's poem *If*. It is an appropriate choice, for as far as the portly professor is concerned those around him have definitely been losing their heads and blaming it on him.

The inventor of the Pearl Omega drug, focus of a four-month furore over medical ethics, compares himself to Galileo, Alexander Fleming and Sigmund Freud – scientists reviled for their revolutionary ideas but later recognised as geniuses. Like them, he says, he is a prophet scorned in his own land.

Stacked against the wall is the cause of his martyrdom: cardboard boxes, each holding 12 bottles of amber liquid. Easily mistaken for bootleg whisky, they hold the wonder drug Obel claims is capable of "sero-conversion": turning HIV positive patients HIV negative.

According to the doctor, a third of the 3,000 people treated with Pearl Omega have been converted from positive to negative. In his Nairobi office, anxious Kenyans queue for the drug. Bottles are being distributed in provincial hospitals and patients fly in from the US, Chile and Brazil in search of a cure. All this despite the fact that Obel is actually breaking the law by selling a drug not approved by Kenya's pharmacy and poisons board.

Such approval would have been hard to give, because Pearl Omega's ingredients remain a mystery. Until a fortnight ago, when he finally submitted samples to the board, Obel kept the details of his invention and testing procedure to himself, arguing that, like Coca-Cola, he risked being copied.

The Kenya Aids Society wants his product banned. The Medical Practitioners' and Dentists' Board is considering having him struck off. And health minister Joshua Angatia has ordered him to stop selling.

Which is all a bit embarrassing, because Obel is no fly-by-night merchant. He is, in fact, an employee of President Daniel Arap Moi's office and answers directly to the head of the civil service. Pearl Omega, it emerges, is something of a "political" drug. In what must count as one of the most bizarre ways of announcing a scientific breakthrough, its miraculous properties were first published in the Kenya Times, mouthpiece of the ruling Kanu party, rather than a medical journal.

The president's office, Obel says, paid for his research and funded the establishment of the centre where Pearl Omega is produced. It also pays the salaries of two bodyguards who watch over him. Although a spokesman for the office remains studiously vague about funding details, he makes no bones about the department's support for Obel, arguing that with a problem as serious as Aids, any solution should be tried. "If someone is offering a way out, we have to give them a chance."

But the backing Moi's office has given Obel – who had, incidentally, already harmed his reputation with a supposed Aids "cure" in the 1980s – has fuelled rampant speculation about what lies behind the project. Some commentators, reminded of the "political banks" that acted as conduits for covert fund-raising before Kenya's 1992 elections, wonder if Pearl Omega's launch during a pre-election period is a coincidence.

"Isn't it odd how Kenya suddenly develops an irresistible urge to spend huge sums on questionable things just when elections are looming?" John Githongo, a local columnist, commented sardonically, saying he feared a "truly evil scam" was in the making.

Certainly the sum, equivalent to $535, (£343) asked for one batch of Pearl Omega – enormous by Kenyan standards – means a lot of cash is changing hands. Obel claims production costs are so high the government is actually losing on every sale. But since no one knows what is in the drug, no one can verify this claim.

The Pearl Omega story is interesting not only because it exposes the way in which Kenya's well-connected can flout the law with impunity. It also sheds light on how a ruling establishment, faced with a terrible modern scourge, has gone for the soft option and failed to meet the challenge.

A comparison with neighbouring Uganda's approach to Aids is revealing. There, the Kampala government threw itself energetically into the fight against the disease. Members of the élite who have caught the virus go public. Sexual practices and contraceptive methods are discussed in breath-taking detail in the media. Billboards preach abstinence, fidelity and condom-use.

Uganda's frankness appears to be paying off. Latest research suggests the young, bombarded with propaganda, have changed their sexual behaviour. In what is hailed as a possible breakthrough, blood samples taken from pregnant mothers showed HIV prevalence going down. In more prudish Kenya, Aids was for a long time considered a disease confined to the promiscuous or homosexuals, brought from abroad. The media avoids the subject. Religious leaders burn condoms in public, claiming they give wearers Aids. Moi slams sex education in school as immoral.

While Uganda scents hope, experts believe the worst still awaits Kenya. In a population of 28m, 56,000 people have full-blown Aids and at least 1.2m carry the virus. Nearly half the hospital beds are occupied by Aids patients. There are expected to be 600,000 Aids orphans by 2005. "For the next five or 10 years Aids is going to increase. Then, when the deaths are openly felt, people will start taking precautions," says John Momanyi, a Kenya Aids Society counsellor. "But by then it will be a bit late."

For Aids campaigners, who fear that Obel's supposed cure will encourage already unaware Kenyans to abandon all caution, the lesson is clear. Uganda took the hard route, and is reaping rewards. Kenya took the lazy route and, when things got bad, fell for the easy lure of a "miracle cure". Kenya is heading for trouble.

PEOPLE

Lucky Koo may strike gold

LG Electronics' president is a new kind of chaebol leader, says **John Burton**

The announcement last week by John Koo, LG Electronics' president, that the company would build a £1.7bn ($2.65bn) manufacturing complex in Wales is one result of managerial reforms that he has helped promote at South Korea's third largest industrial group.

John Koo, right, shakes hands with David Rowe-Beddoe, chairman of the Welsh Development Agency

Koo, 49, represents a new generation of founding family members who are intent on making the $64bn LG Group – formerly Lucky Goldstar – into a leading multinational in sectors such as electronics, petrochemicals and oil refining.

His cousin, Koo Bon-moo, who became LG Group chairman last year, recently launched an ambitious project, Leap 2005, to increase sales in the next decade, with foreign sales growing to half of total turnover from 20 per cent now.

LG's goals reflect the emphasis on globalisation that has become a main strategic theme for all Korea's big industrial groups, or *chaebol*. Their foreign expansion is in response to mounting problems at home, including sharp rises in wage costs, low productivity growth and a stagnant domestic market.

The interest in international operations also mirrors the cosmopolitan background of the new generation of Korean executives, such as John Koo.

After graduating from Princeton University in economics, Koo spent a decade in Hong Kong and Singapore working for the LG trading house. In 1987, he transferred to LG Electronics, then called Goldstar, as managing director for overseas operations.

His exposure to business conditions abroad convinced him that internal corporate reforms were needed if LG was to maintain its competitive edge. The group was known for its autocratic and hierarchical structure, with an aversion to taking risks. Although the Koo family had never indulged in the personality cults that surround most *chaebol* founders, nepotism was widespread.

These factors were blamed for the loss of LG's position as Korea's biggest *chaebol* to Hyundai and Samsung during the last 15 years.

Established in 1947 by Koo In-whoi, John Koo's uncle, as a producer of facial creams and other cosmetics, LG expanded into petrochemicals and oil refining during the next three decades. But its pioneering role in Korea as a manufacturer of consumer electronics was the key to its rise.

By 1991, when John Koo became the company's executive vice-president, Goldstar had lost its pre-eminent position as Korea's leading electronics producer.

In response, Koo helped sponsor what was regarded in Korea as a radical reorganisation of Goldstar's inefficient management to improve competitiveness in overseas markets. With assistance from the McKinsey consulting group, Goldstar introduced decentralised decision making, stronger consumer orientation – and greater emphasis on profits rather than volume production.

Net profits at Goldstar jumped from Won 18.5bn (£14.6m) in 1991 to Won 104.6bn in 1994, although they dipped to Won 79.2bn last year due to new restructuring costs. In the past two years, the company has also regained its position as Korea's biggest consumer electronics manufacturer.

The corporate reorganisation coincided with aggressive expansion in the multimedia sector to reduce dependence on consumer electronics – a mature market.

Since he became president of LG Electronics in December 1994, John Koo has turned his attention to overseas growth. A year ago, LG Electronics bought Zenith, the last independent TV manufacturer in the US, in a $358m deal that was the biggest foreign acquisition by a Korean company.

That has been followed by news of the electronics complex in Wales, Korea's largest foreign investment ever. Facilities are due to include the production of picture tubes by LG Electronics and the manufacture of multimedia chips by LG Semicon, the group's semiconductor unit that is 54 per cent controlled by LG Electronics.

The investment in Wales reflects John Koo's new role as the chief executive responsible for co-ordinating strategy among the group's electronics-related subsidiaries, including consumer electronics, semiconductors and telecoms.

LG has scored other recent successes in electronics, including winning a lucrative licence to operate a mobile telecoms system in Korea. And LG has emerged as a main supplier of mobile telecoms equipment for other domestic operators.

If such achievements continue, John Koo will be given much of the credit for reviving LG's fortunes.

NAMES IN THE NEWS

Nike bears founder Knight's distinctive tattoo

There is something slightly maddening about Nike, writes Richard Tomkins in New York. That silly insignia – the *swoosh* – is bad enough. Worse is that large numbers of superficially normal people are prepared to pay $115 (£73.70) for a pair of Nike's glorified gym shoes.

Still, Philip Knight is doing very nicely out of it. As Nike's founder and chairman, he still owns 35 per cent of the company's stock. And after the rise in Nike's share price that followed last week's record financial results, Knight is sitting on a stake worth $5bn.

Knight is an unconventional businessman. A sports fanatic, he was a middle-distance runner for the University of Oregon's track team when, in 1958, he first started talking to his coach, Bill Bowerman, about the lack of a good American running shoe.

In 1964, by then an accountant, Knight teamed with Bowerman to test his theory that high-quality running shoes could be designed in the US, made in Asia and sold in the US for less than those made by Adidas of Germany, then the market leader.

Each put $500 into the business and they named it Blue Ribbon Sports. Knight started by selling Japanese running shoes out of a station wagon at track meets, while continuing to practise as an accountant and teach at Portland State University in Oregon.

After this uncertain start, the two formed Nike to design and sell their own shoes. It was born as the jogging craze took off. Sales rocketed.

Since then, Nike has become the world's biggest sports shoe company. Employees seem to worship Knight: many of them have demonstrated their loyalty by having the *swoosh* tattooed on their legs.

But the company has had problems. When the jogging boom ended, Nike failed to foresee the aerobics craze, allowing Reebok to claim the high ground temporarily. And it had a nasty hiccup two years ago when fashion turned against trainers.

For now, though, Nike is on a roll. The Olympics are about to begin, sport is in the limelight – and still growing furiously – and Nike says orders are 55 per cent up on a year ago.

Von Spreckelsen's balancing act

John von Spreckelsen is that rare bird, a German chief executive of a British company, writes **Simon Kuper in London**. After five years at Budgens, the supermarket chain, he feels he has worked his usual trick of turning a company around. Others are less sure. Von Spreckelsen first moved to Britain in 1967, joining Westminster Bank. In 1970 he became chief executive of his first company, tour operator Inghams Travel.

Then he became a corporate financier, a finance director, and later chief executive of a freight services company before founding his own project management company, Cellec, in Switzerland. In 1989 it won the contract to turn around Kafu Wasmund, a Bremen-based supermarket chain. Two years later institutions recruited him to loss-making Budgens.

"You always see that I'm moving from finance into service organisations," he says. "But I would not get involved in any sector where I would not feel comfortable with the basic business" – computers or restaurants, for instance.

When he joined Budgens the share price fell 11 per cent, on suspicions that he and his right-hand men, Christian Williams and Graham Rigby, underestimated threats posed by the new superstores.

Budgens made £7.6m pre-tax last year but Von Spreckelsen's time in charge has also seen downs, with the share price bottoming at 24p in February 1995 after the chain's move into aggressive food discounting. It reversed that swiftly, selling its Penny Market stores, and the shares stand at 46p – well off the 1987 peak of 252p. But analysts expect good times ahead.

Atkinson happy under canvas

Richard Atkinson has come a long way since – armed only with O-level French – he took a summer job as a courier with an outfit called Eurocamp in 1975, writes **David Blackwell in London**.

Eurocamp, then a family company, was one of the pioneers in its market. Camping holidays in France were infinitely more popular with England's middle classes than the soggy sites of England and Wales.

Atkinson, a keen walker and climber, became the first full-time employee, and has been managing director since 1983. After the group emerged as market leader at the end of the 1980s, he helped engineer a £32m management buy-out from Next in 1988, and steered Eurocamp to flotation in 1991, with a market valuation of £54m.

But the UK market for holidays under canvas in France looks pretty mature. Last week Atkinson announced plans to cut a fifth of the 250 sites from next year's brochures following a sharp reduction in current bookings.

He is convinced, however, that camping holidays still offer room for growth. In recent months he has acted on his belief that Europe offers the best chance to boost profits by acquiring the group's agents in Holland, Germany, Switzerland and Austria. He sees further potential customers in Spain, Italy and eastern Europe. Eurocamp has also diversified, last year buying Superbreak, a privately-owned holiday company providing short breaks in hotels in the UK.

Peter Norman · Economics Notebook

Gold's place in the German psyche

Bonn wants the IMF to recognise the bitter lesson of Kohl's grandfather

It pays never to underestimate the role of a leader's personal experience or family history in international affairs.

Germany's refusal to allow gold sales by the International Monetary Fund to help put its Esaf concessional lending facility on a permanent footing owes some of its force to an unfortunate investment in war loan during the first world war by Chancellor Helmut Kohl's grandfather.

The issue of financing the IMF's "enhanced structural adjustment facility" – or Esaf – may appear arcane. But the IMF management's proposal to sell $2bn of the fund's $40bn gold reserves and invest the proceeds to finance support for some of the world's poorest developing nations is a matter of great importance for the mainly African countries concerned.

Financing Esaf was also one of the few issues to generate any excitement at last month's Group of Seven summit in Lyons, with Chancellor Kohl surprising many with his vehement and high-profile rejection of the gold sales plan.

It is unusual to find Germany taking a tightfisted approach on international aid. As the table shows, it ranks third in the provision of official development assistance among G7 countries while its actual ODA payments last year, at $7.5bn, exceeded the $7.3bn provided by the US. Moreover, Kohl is not known for showing an interest in the financial complexities of development aid.

That Kohl should have become personally involved shows how the Esaf issue has touched a raw nerve in Bonn. It has triggered German resentment that other countries are not taking a fair share of international financial burdens and exposed the deep-seated psychological scars that this century's two currency collapses have left with the government and people.

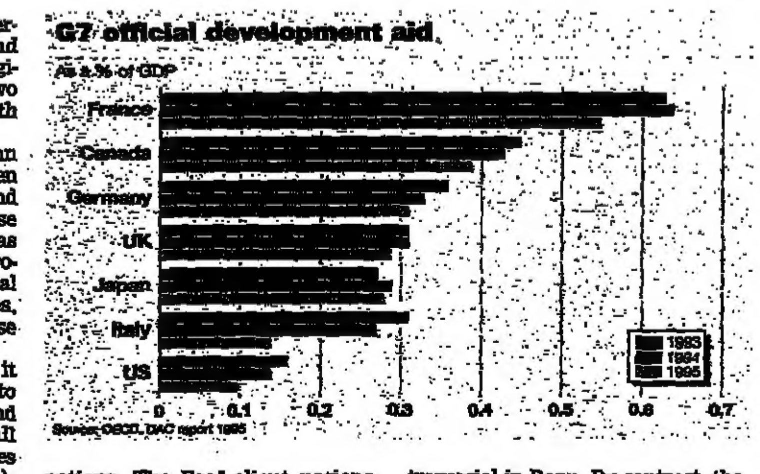
There is a strong feeling in Bonn that the Esaf issue has been given a high profile by governments, and in particular that of the US, whose support for poorer countries has declined in recent years. With proposals to multilateralise financial support for developing countries, the unwilling donors can disguise their own failure to contribute.

Germany, by contrast, claims it has carried out its obligations to less fortunate countries in full and to the letter. It puts its overall assistance to developing countries since 1990 at DM225.6bn ($148.4bn).

Germany's philosophical objections to fund gold sales are reflected in its insistence that the move could put the IMF at risk. Bonn claims that such action would send a wrong signal to the financial markets and member countries after 18 months in which the fund has committed itself to providing up to $17bn of support for Mexico and $10bn for Russia. It argues that gold sales are illogical when the IMF's leading members have been preoccupied with strengthening the fund's access to emergency funds by doubling its "general arrangements to borrow" and when there are discussions about increasing the IMF's quotas, or membership fees.

Gold sales would indeed run counter to Germany's concept of the IMF as a monetary institution that in an ideal world would not be involved in the long term finance and rescue of impoverished nations. The Esaf client nations, which are mainly in sub-Saharan Africa, obtain funds for extended periods at the highly concessional rate of 0.5 per cent in return for pursuing market-oriented economic reforms. The German view is that such a transfer of resources from rich to poor should be financed through the bilateral contributions of donors and not through the monetary resources of the IMF provided by central banks.

G7 official development aid



Source: OECD, DAC report 1996

Germany stresses that it is not opposed to Esaf. It has produced alternative proposals for the interim financing of the facility after the present funds run out in 2000 or 2001 and for a self-sustained Esaf to start in 2004, or 2002 if necessary. It has proposed bilateral contributions from rich countries, with Germany making an appropriate contribution, and tapping another IMF asset known as the "special contingency account – 2".

Such financing would be uncontroversial in Bonn. By contrast, the German government fears that IMF gold sales to help poor nations could set an unhealthy precedent and that before long there would be demands for more gold sales to finance other causes, at home as well as abroad.

While other central banks have been selling gold, the Bundesbank is sitting on 95m ounces of the yellow metal valued conservatively at DM13.69bn, or an average of DM144 ($94.77) per ounce against Friday's market price of $384.

Officials say German approval for IMF gold sales could have triggered a discussion about the Bundesbank gold, possibly reviving opposition proposals to monetise the metal to help plug the nation's deficits. Another fear is that IMF gold sales could weaken government claims that the planned European economic and monetary union will be a zone of stability, with the Euro as strong as the D-Mark, because the electorate might conclude that Germany would be prepared to sacrifice its own gold on the altar of Emu in negotiations with its European Union partners.

Such arguments appear far-fetched in countries like the UK which have shown scant regard for gold in recent years, consistently backing the IMF gold sales plan. But gold has a special place in the German psyche, partly because many families owe their survival in the chaos at the end of the second world war to having a modest stock of gold to finance their escape from invading forces and partly because the nation has seen the value of its currency wiped out twice this century.

It is here that we come back to Kohl's grandfather. He was a modest man, the head of an elementary school, who ploughed his savings of a few thousand marks into war bonds during the 1914-18 war. He lost his entire investment, a personal catastrophe that still weighs with his grandson.

For by investing in interest bearing bonds, the chancellor's grandfather did on a small scale what Germany's G7 partners want the IMF to do. In the financial crisis that followed the first world war he was left without the security of the "family silver".

Bonn wants the IMF to keep that sort of security because if a really serious financial crisis should break out, the IMF could expect its gold reserves to rise in value while the value of securities shrivelled away. It is an argument that may not appeal to sophisticated financiers but it makes sense to Kohl and the people who vote for him.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 14.07.96: Pool purchase price £/MWh	Final Prices for Trading on 16.06.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.92	8.93	10.67
0100	7.00	8.90	8.90
0130	8.80	8.89	8.89
0200	8.88	8.89	8.89
0230	8.88	8.89	8.89
0300	8.88	8.89	8.89
0330	8.88	8.89	8.89
0400	8.88	8.89	8.89
0430	8.88	8.88	8.88
0500	8.86	8.86	8.86
0530	8.87	8.86	8.86
0600	8.87	8.86	8.86
0630	8.88	8.86	8.86
0700	8.88	8.89	8.89
0730	8.89	8.89	8.89
0800	8.90	8.90	8.90
0830	9.02	8.32	10.08
0900	13.63	11.98	13.73
0930	13.63	13.31	15.05
1000	13.63	17.89	19.43
1030	16.07	20.75	22.50
1100	19.88	22.31	24.05
1130	21.40	35.10	38.84
1200	21.40	35.10	38.84
1230	21.40	35.10	38.84
1300	21.40	35.10	38.84
1330	19.49	22.31	24.05
1400	19.88	18.90	20.65
1430	17.03	17.69	19.43
1500	17.03	17.60	19.34
1530	17.03	17.60	19.34
1600	12.74	8.94	8.94
1630	12.74	8.94	8.94
1700	12.74	13.31	15.05
1730	17.03	17.60	19.34
1800	17.03	17.60	19.34
1830	17.03	13.31	15.05
1900	12.74	13.31	15.05
1930	12.74	13.31	15.05
2000	12.74	13.31	15.05
2030	17.03	13.31	15.05
2100	17.03	13.31	15.05
2130	17.03	17.69	19.43
2200	20.31	38.84	38.38
2230	28.21	80.35	82.10
2300	28.21	80.35	82.10
2330	19.33	17.69	19.43
2400	19.33	11.99	13.73

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.88/MWh becomes 1.088p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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0200	7.00	8.90	8.90
0230	7.00	8.90	8.90
0300	7.00	8.90	8.90
0330	7.00	8.90	8.90
0400	7.00	8.90	8.90
0430	7.00	8.90	8.90
0500	7.00	8.90	8.90
0530	8.92	8.89	8.89
0600	8.91	8.89	8.89
0630	8.95	8.91	8.91
0700	15.94	8.94	10.67
0730	17.57	18.35	20.13
0800	17.83	20.14	22.41
0830	19.72	22.55	25.52
0900	22.53	29.02	33.39
0930	27.15	35.07	40.73
1000	30.82	44.69	51.27
1030	40.09	51.29	58.50
1100	41.39	55.82	63.96
1130	58.34	73.78	82.97
1200	64.42	84.22	94.74
1230	63.86	81.20	90.47
1300	60.15	73.50	81.53
1330	40.34	54.48	60.83
1400	29.30	35.94	41.61
1430	35.24	34.13	39.42
1500	34.75	32.37	37.31
1530	40.68	32.02	36.94
1600	42.27	35.44	41.19
1630	51.57	39.82	46.48
1700	52.83	46.99	53.71
1730	49.56	40.50	45.84
1800	44.52	25.76	29.35
1830	20.33	20.09	22.34
1900	17.44	18.89	20.70
1930	17.39	18.45	20.20
2000	16.67	18.28	20.02
2030	16.67	18.28	20.01
2100	18.29	18.28	20.01
2130	19.02	8.99	8.99
2200	22.54	19.86	21.58
2230	37.46	30.08	31.81
2300	37.47	30.08	31.81
2330	16.67	18.28	20.01
2400	18.29	16.74	18.48

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.88/MWh becomes 1.088p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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Cambridge University may become a leading centre for the study of corporate governance, says **Martin Dickson**

Sharpening up the cutting edge

Is Cambridge University on its way to becoming one of the leading world centres for the study and teaching of corporate governance?

That was the question being asked last week at a gathering of leading British and international figures in the field of corporate governance at the university's business school, the Judge Institute of Management Studies.

They included Sir Adrian Cadbury, the author of the landmark Cadbury report on corporate governance, Anne Simpson, director of Pensions Investment Research Consultants, the shareholder advisory group, and Bob Monks, one of the key figures in the US corporate governance movement over the past decade and a half.

Business schools on both sides of the Atlantic offer corporate governance courses, but nowhere does there appear to be a centre dedicated both to the global study of the issue and to pulling together strands of the subject which stretch into other disciplines such as law, economics and public policy.

Cambridge has a chance to fill the void thanks to Monks, who has become wealthy by combining his campaigning with canny investing, and who has just made a large donation to the Judge Institute to help set up a governance study centre. It will also involve Cambridge's existing Centre for Business Research, funded by the Economic and Social Research Council, and other faculties.

But why the UK and why Cambridge? After all, the university is not particularly known for business studies, and the Judge Institute was only founded in 1990.

Monks explains that it would not be as easy to set up a governance centre in the US, because of jealousies between academic disciplines and ties between corporations and schools. Britain is a good location for an institution with international goals, and Cambridge has great academic clout across a range of the relevant disciplines, such as law and economics. He also happens to be an alumnus of the university, which he attended as a Harvard scholar.

The time may be ripe for such an initiative. Corporate governance – which can be defined narrowly as the relationship of a company to its shareholders or, more broadly, as its relationship to society – has grown steadily as a business issue in the US and Britain over the past 10 years. It is now starting to make waves in Continental Europe, where companies have traditionally adopted a more cavalier attitude to shareholders, but are now under increasing investor pressure to improve their financial performance.

There are also signs that in both the US and the UK the nature of the governance debate may be widening. For the first half of this decade the focus was very largely on narrowly defined governance – a company's responsibilities to its shareholders.

However, more attention now seems to being focusing on the more nebulous issue of the role of the company in society. A leftward movement in the political climate may be partly responsible, but so too are more tangible factors, notably public concern about soaring executive pay at companies involved in large job cuts.

In the US, there have even been Congressional moves to bring in legislation punishing "bad" corporations and rewarding "good" ones.

These trends were reflected at the Cambridge meeting, which was called to advise the Judge Institute on how it could carve out a distinct role on the cutting edge of the corporate governance debate.

Many businessmen on both sides of the Atlantic are heartily sick of corporate governance, which they regard as restricting their freedom of action and tying up valuable management time in bureaucratic red tape. But the subject is clearly not going to go away, and issues raised in Cambridge may give some clues to the direction in which the debate is heading.

Several speakers advocated taking a very broad view of the role and purpose of the corporation in society. Some argued that capitalism's victory over communism had, paradoxically, focused critical attention on the power of the western multinational. Others suggested that the Tiger economies of Asia, and the increasing trend for joint venturing, were producing forms of business arrangement which challenged the traditional western model, a creation of the 19th century.

Monks himself argued that while American corporations were the most competitive in the world, they were accountable to no-one and it was a myth that they were controlled by market forces, accounting regulation and the legal system. (see below).

However, other speakers emphasised that academics and the business community were too far apart on corporate governance issues and the institute's activities had to be rooted in real world nuts and bolts if it was to gain executives' attention.

Research could usefully focus on the factors that made a company successful over the long term and on the relationship between city institutions and the investing customers for whom they acted as steward. Another fruitful area might be the relationship between the institutions and non-executive directors, who were supposed to act as an independent voice on boards.

The finance director of a large quoted company suggested an investigation of the remarkable reluctance of institutional investors to take on responsibility for corporate governance. They wanted to retain the right to make short-term share trading decisions.

Several speakers also emphasised the need to focus research on the needs of smaller and medium-sized companies – both in the UK and other countries. They had different needs from the large multinationals and institutional investors were often less knowledgeable about them.

The Judge also plans to teach corporate governance to businessmen but market research suggests it will have a hard job convincing them of the merits of such courses: most top executives it surveyed regard the subject very negatively – in the dismissive words of one as "commercial political correctness." A large gulf has yet to be bridged.

Solutions to a global problem

For the past 15 years Bob Monks has been not only one of the most active leaders of the US corporate governance movement, but also its most stimulating thinker. He underlined this reputation in Cambridge last week with a speech portraying the US corporation as overweeningly powerful and accountable to no one.

His solution: that long-term institutional investors, particularly pension funds, should become "corporate monitors" – a party to which management could be held accountable.

He argues that corporate America's vast expenditure on Congressional lobbying, its ability to bend accounting rules and the legal system to its demands and rocketing executive pay, all point to a lack of control.

Despite much talk about stakeholder and shareholder power, "the prevailing governance system in the US boils down to the chief executive acting as a trustee for the public good". It is not right, he maintains, to locate so much unaccountable power in a free society other than through a general election.

However, he rejects government interference and says institutional investors, who hold more than 50 per cent of quoted US shares on behalf of 100m beneficial owners, are a "valid proxy for the population as a whole," and should fill the void.

Critics think Monk's description of corporate power is exaggerated and point to the practical problems of implementing his solutions. With the exception of some large public pension funds, most institutional fund managers have been reluctant to assume the mantle of corporate governance, since this imposes extra costs on them and risks alienating their corporate clients. It could also pose conflicts between their role as investors and corporate insiders.

Monks replies that government should impose a framework which pressures them into shouldering their responsibilities.

"In the century to come, as multinational companies create the borderless world of global markets, the focus will be on ensuring that corporate power is compatible with the rights of individuals"

A Harvard-educated lawyer, who worked in industry and chaired a Boston investment firm, Monks came to prominence in corporate governance when he founded Institutional Shareholder Services, which advises large institutional shareholders on voting their shares.

He acted as a pensions regulator in the Reagan administration and has three times stood unsuccessfully as a Republican Senate candidate for the state of Maine. The latest run was this spring.

In the 1990s he has become a shareholder activist in his own right. He rocked the board of Sears, Roebuck by running as an independent director, a campaign which crystallised investor unhappiness with the company and led to a shake-up of its retailing side and the spin-off of its financial services arm. In 1992, with long-time colleague Nell Minow, he set up Lens Inc, an investment company which takes stakes in under-performing businesses and agitates for change, hoping the improvement will lift the company's share price.

He toyed with doing the same in the UK but decided against it on the grounds he was insufficiently sensitive to the local culture.

A prolific writer on corporate governance, his latest book, co-authored with Minow, has just been published in the US*.

Picking up the theme of the Cambridge speech, it argues that "in the century to come, as multinational companies create the borderless world of global markets, the focus will be on ensuring that corporate power is compatible with the rights of individuals in a democracy. The challenge is to encourage the creative energy of corporations without imposing unacceptable costs on individuals and society."

Yet there seems to be a basic conflict between Monks' call for long-term investor responsibility and his short-term actions at Lens, where he takes profits and sells stock after helping foment an improved performance.

He acknowledges this, but argues that we are in a transitional period, "getting a wider acceptance of corporate accountability which the market will accept." Fine words, but curbing the profit motive is hard, even for Monks himself.

**Watching the Watchers: Corporate Governance for the 21st Century. By Robert Monks and Nell Minow. Blackwell $21.95*

Martin Dickson

The science of employee selection

Lucy Kellaway

We have watched men frankly telling the nation about their low sperm count and seen couples squabbling about their new gold bathroom taps, but when it comes to a voyeuristic TV documentary it is hard to beat a fly on the wall account of a job interview.

Last week the BBC treated us to the sight of two hopefuls who had applied to be trainee managers at the Coventry branch of Toys 'R' Us. Julia was a nice young graduate with a degree in business studies. Kashmir was a frustrated assistant manager of a supermarket. Confronted by the store manager, a 26-year-old upstart who bragged about his long hours and boasted that he thrived on the stress, Julia kept giggling nervously whereas Kash kept opening his briefcase and attempting to give an unsolicited presentation. After a series of interviews and a whole day of tests and team exercises, we finally saw them opening brown envelopes bearing the news that they both had got the job.

Thus far I had learnt that people are queueing up to be trainee managers at Toys 'R' Us, that the company goes to great lengths to find perfect employees and that those who climb to the top are disgustingly smug. But as the credits rolled the punchline was delivered: Julia had lasted 11 months in the job. Kash lasted one week.

Toys 'R' Us is not unusual in its attempt to make selection into a science; the programme was a reminder that all the team games in the world do not make it any easier to choose the right people.

"Directories, Eileen speaking, which name please," says the lady when you phone directory inquiries. When Eileen and her colleagues started introducing themselves to us a few months ago, the idea was that this would give the service that nice little personal touch. At the time I was unmoved: the idea of getting personal with a phone operator has little appeal.

But now I discover that Eileen is not Eileen at all. She is a tape recording that is activated when a caller rings. The first time you hear the real Eileen talk is when she asks you how the name is spelt, and even then the encounter is brief, as she quickly passes you over to a computer to read the number.

It cannot be long before a computer will do everything. And when that time comes will some bright spark at BT decide that the computer must pretend to be a human being with a name like Eileen? Or will they finally realise that what we want is good service, and that involves just one thing: giving us the right number as quickly as possible.

Does it hurt that your company car is a BMW 318i when your colleague has got a "C" class Mercedes? Of course it does. Would you admit as much to a nice person with a clipboard carrying out a survey? Of course not. So it is not exactly a shock to read in a new survey from Velo, the fleet management arm of Kleinwort Benson, that the only reason executives really want to drive "prestige executive car marques" is because they are practical; apparently keeping up with the Joneses just does not come into it. My second hand, no-frills Ford Escort is about as practical a car as you can get. I wonder why you do not see more executives driving around in them.

Consider the following two insights into management consultancy. "Today's companies seek consulting firms that can dedicate multidisciplinary teams with myriad strategic, operational or technology skills to implement and deliver significant, tangible results." "A consultant is a person who takes your money and annoys your employees while tirelessly searching for the best way to extend the consulting contract."

The first quote comes from a press pack sent to me by EDS, the owner of management consultant AT Kearney, the second is from Scott Adams, the creator of the Dilbert cartoon. Which is more in touch with the real world?

With the Dilbert Principle still ringing in my ears I turned to the "new media information dossier" from the European Foundation for Quality Management. Here I found a model that allows companies to benchmark their own quality organisation in its entirety. The model consists of nine boxes, each containing a different weighted measure of a company's success. Thus your policy and strategy counts for 8 per cent of the total score, your business results for 15 per cent and so on. Maybe I am missing something but this strikes me as a meaningless exercise: the ultimate comparison of apples and oranges. But the EFQM has taken its quality message to heart, and announces that the model itself is subject to continuous improvement. It reminds me of the Dilbert boss who asks for status reports on status reports.

DEALING WITH DISABILITY

Disability Discrimination Act

Five people with learning difficulties were recently denied access to an Isle of Wight private zoo – an action which in November will become illegal under the terms of the new Disability Discrimination Act.

The act, which is being introduced in phases, makes it illegal for any employer of more than 20 people to discriminate against people at work or for businesses to discriminate against disabled customers in the delivery of goods and services.

The act is radical in that the UK is the first country in the European Union to enact legislation which seeks to improve the quality of life for 6.2m people, especially for the estimated 3.8m who are of working age.

For the first time employers will be expected to look at what changes they can make to the workplace and the way work is done. They will be expected to make "reasonable adjustments" to assist disabled people, such as altering equipment and changing working hours.

No costings have been published on implemention of the new Disability Discrimination Act, which places the onus on the individual to take his or her complaint to a civil court or an industrial tribunal – a significant weakness according to many charities.

The government's case is that the method of introducing the act over a period of time will mean that the costs will be "reasonable" for industry while still matching the aspirations of disabled people.

Susan Scott-Parker, chief executive of the Employers Forum on Disability, a group representing 186 employers focused on the employment and training of people with disabilities, says that best practice does not have to cost a lot of money.

She quotes research between 1978 and 1992 by Sears Roebuck in the US on making "adjustments" in its workplaces to accommodate disabled employees. For 69 per cent these were made at no additional cost to the company, 28 per cent at less than $1,000 (£666) and only 3 per cent cost more than $1,000.

"Introducing flexible hours for people who find it difficult to travel in rush-hour or allowing people who may suffer from cyclical pain to bank overtime is not difficult to do," she says.

Charities such as the Royal Society for Mentally Handicapped Children and Adults are actively promoting information to employers about best practice.

Churchill & Friend, which offers disability training and consultancy, has produced an audit for employers to help them assess their procedures on the employment of disabled people while Remploy, the largest employer of disabled people in the UK, is already helping many other companies through its training and advisory programmes.

Tony Withey, chief executive of Remploy, is optimistic about the new act, while accepting that a number of test cases may have to be made to test the wording of the new law. But he says: "If employers respond in spirit to the new act that does not necessarily need to happen."

Lisa Wood

FINANCIAL TIMES
COMPANIES & MARKETS

Monday July 15 1996

Nestlé forecasts strong profits on water

By Roderick Oram in Vevey, Switzerland

Nestlé will this year start to see the first big fruits from its SFr3bn ($2.4bn), five-year-old investment in mineral water, a diversification criticised by some investors as expensive and insufficiently profitable.

Perrier, the French water source that accounted for roughly half the investment, showed a "small profit last year" and will show a "better profit this year", Mr Helmut Maucher, Nestlé's chairman and chief executive, said in an interview at his Swiss headquarters.

"We've developed a dominant position." Coupled with this year's completion of rationalisation and re-equipping of its acquisitions, water profits would begin to flow strongly, he said.

Mr Maucher's positive comments might catch some shareholders off-guard. They are focusing instead on a rebound in coffee profits and strong volume growth in foods, trends which Nestlé will underline in its first-half trading statement tomorrow.

The diversification has made Nestlé the world's largest supplier of bottled water with a market share of about 13 per cent against 9 per cent for second placed Danone of France, according to Zenith International, the UK drinks market research company.

But investors have long suspected Nestlé's water profit margin and return on investment lagged far behind Danone's. Last year Danone achieved a trading profit margin of 12.6 per cent on water, depressed by sharply higher packaging costs, said Mr John Campbell, an analyst with Paribas in London.

Nestlé's failure to disclose financial details of its water activities has deepened investor scepticism. Its profit margin might be about 8 per cent, estimated another analyst.

Mr Maucher said that overall, mineral waters produced a return on capital last year of "6 or 7 per cent", roughly one-third the return the group as a whole will achieve this year.

Within the waters total, some brands produced returns closer to 20 per cent, added Mr Peter Brabeck, who takes over as chief executive from Mr Maucher next June. That would imply, analysts said, that Perrier was still struggling.

Nestlé fought a bitter battle for Perrier in 1992, followed by a near two-year fight with European Union competition authorities over its dominant French market share. As a result, Nestlé sold Volvic, a leading brand, to Danone.

A 6 or 7 per cent return on capital implies trading profits of about SFr200m a year from water. In Nestlé's accounts, they are grouped under beverages which produced SFr2.15bn last year, 40 per cent of group total. Beverages are dominated by coffee, which contributed about SFr1.7bn, analysts say.

Lex, Page 16

HSBC in search for US bank buy

By Nicholas Denton in London

HSBC Holdings, which owns the UK's Midland Bank and stockbroker James Capel, is poised to follow National Westminster Bank in acquiring a medium-sized US investment bank.

While NatWest last month acquired a government bond broker in Greenwich Capital Markets, HSBC is seeking to add local equities and advisory operations.

The group, which has ruled out the purchase of a large US "bulge bracket" firm such as Lehman Brothers, is believed to be looking for an acquisition of the order of NatWest's deal, which was worth $590m.

A strategic planning exercise has identified about 20 potential targets of that scale but only half a dozen have the appropriate profile.

HSBC's early development of a government bond business has given it room to manoeuvre within restrictive US regulations governing the combination of banking and securities businesses. Under Federal Reserve rules, a bank is permitted to derive only 10 per cent of revenues from "non-eligible" activities such as equity underwriting. With its government bond business, HSBC has $1bn of largely "eligible" US revenues, giving scope for expansion in securities.

HSBC, which has grown organically in the US to employ about 250 people in debt and 180 in equities at its HSBC Securities subsidiary, said it was "under no pressure to buy another firm's franchise".

The bank signalled that a deal was unlikely before next year. "The current level of prices does not make any US investment banking acquisition an attractive alternative to organic growth in the short term," said Mr Jim O'Donnell, head of HSBC Securities, who is thought to have argued within HSBC for a measured pace of expansion in the US.

But Mr O'Donnell said HSBC, already active in selling Asian shares and bonds into the US, and other international businesses, intended to "build up its domestic product capabilities over the longer term".

HSBC began its latest phase of expansion in the US in 1995 by hiring Mr O'Donnell from NatWest, where he was head of US securities.

It recruited 20 US analysts from Mr O'Donnell's former employer, including a team from Washington Analysis, which covered US policy and legislation.

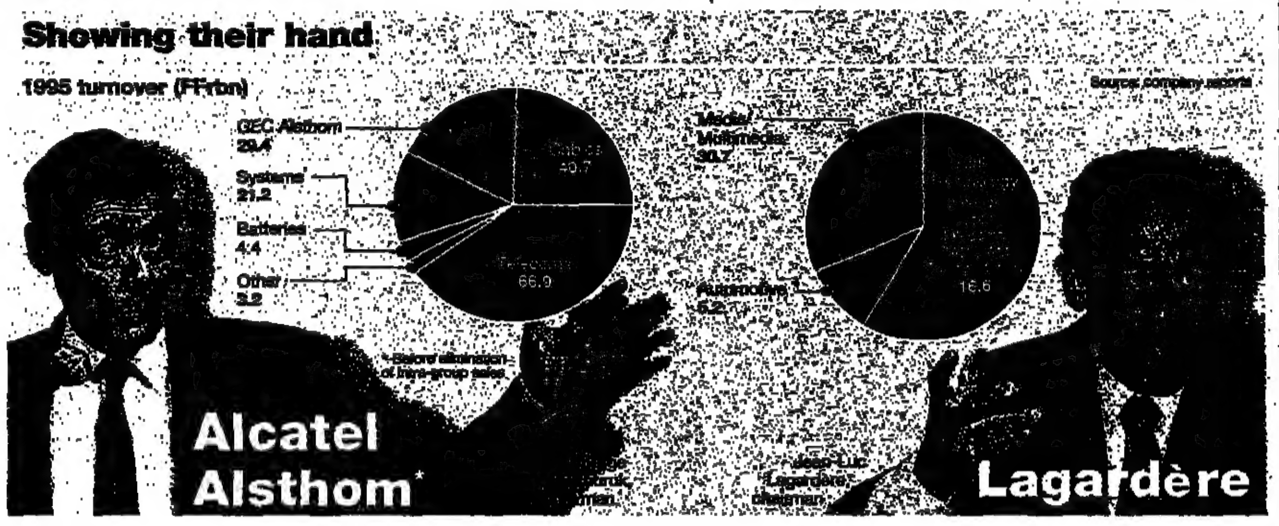
But HSBC has come under pressure to take more radical action to build up its US investment banking presence as its European competitors, such as Deutsche Morgan Grenfell and Union Bank of Switzerland, expand internationally.

HSBC's relative inaction was highlighted particularly when, soon after NatWest made its move, Barclays's BZW unit hired Mr Robert Diamond, the former head of fixed income at CS First Boston.

David Buchan and David Owen report on the progress of Thomson's impending privatisation

France weighs up its options for a defence alliance

Showing their hand



President Jacques Chirac has a vision for the French defence electronics industry. He wants to see a privatised Thomson, capable of striking new alliances with European partners and taking on US competition.

This privatisation is poised to take a further step with the submission to the government by Mr Marcel Roulet, the company's president, of his recommendations about the state of the group and how its sell-off should proceed.

Mr Roulet is expected to deliver his report any day now. It will then be up to the government to decide whether to make its contents public.

The procedural question should be easy to answer. No one expects the sale to take the form of a flotation. This is partly because of the difficulty of enticing the public to invest in a group with a total debt of FFr25bn ($4.84bn) – unless it is massively recapitalised by the state – but mainly because the government wants the new owner to be a company wholly or partially involved in defence.

So the privatisation looks most likely to take the form of an agreed sale to one of two declared bidders – the Alcatel Alsthom telecommunications and engineering group or the Lagardère missiles-to-magazines conglomerate. By the end of June, both groups had declared their interest and submitted to Mr Roulet and the government offers which were neither binding nor precise.

If, as expected, Mr Roulet recommends that the government enter into negotiations with both parties, and if the government follows this advice, a second stage will ensue in which Alcatel and Lagardère will get a proper look at Thomson's books and then decide their final offers.

The only public comment by Mr Roulet, a former France Télécom chairman whose sole job at Thomson is to see it into private defence-related hands, has been to say he will recommend the government should decide on a buyer in early autumn so as not to prolong uncertainty, and that it should keep a "golden share" to retain control over so important a defence asset.

It has been hinted in government circles that Thomson might eventually be offered to both bidders in some sort of partnership arrangement. This is not a solution that either would view with enthusiasm.

Alcatel starts favourite, because it has said it is ready, in principle, to bid for all of Thomson – the money-draining Multimedia consumer electronics subsidiary as well as the essentially profitable Thomson-CSF professional/defence electronics arm. Lagardère, by contrast, is only really interested in Thomson-CSF to add to its Matra defence interests, but it has lined up Daewoo of Korea as a buyer for Multimedia.

The idea of the Thomson television marque ending up in Asian hands might seem guaranteed to displease the French establishment. Mr Roulet's report will probably also reflect the pro-Alcatel sentiment of most people in Multimedia, who do not want to see their TV digital compression and decoding technology being shared – or carved up – between Lagardère and Daewoo. Lagardère has said the one part of Multimedia it would like to keep, or share with Daewoo, is digital technology because of the synergy with its satellite business.

But only a 10th of Multimedia's 50,000 workforce is in France, with the rest in the US and Asia, and Mr Jean-Luc Lagardère claimed to his shareholders that the government now "totally admitted" Daewoo as a legitimate member of his consortium.

It is harder to guess how Mr Roulet may sum up the preference of Thomson-CSF, which has the satisfaction of seeing itself coveted by both bidders. On balance, Thomson-CSF, whose business is still predominantly military, is likely to feel it more natural to join Lagardère's Matra defence division which is more substantial than Alcatel's defence operations.

In addition, the Lagardère group seems to have a more precise idea of how to develop Thomson-CSF internationally. Mr Lagardère claims already to have the agreement of GEC of the UK, British Aerospace and Germany's Daimler-Benz Aerospace to come in as minority partners in Thomson-CSF. These are companies with which Thomson-CSF does business or has joint ventures in the military field.

Thomson-CSF's eventual "Europeanisation" under Alcatel is much less clear, though GEC is deeply involved with Alcatel in their GEC-Alsthom joint venture in civil transport, engineering and power equipment. Indeed, Alcatel seems in general less clearly focused on Thomson than Lagardère.

This is partly because Mr Serge Tchuruk, the new Alcatel chairman, has been far less vocal on the subject than Mr Lagardère, and partly because he has a far bigger internal restructuring job on his hands at Alcatel than Mr Lagardère. While Lagardère has recovered from its disastrous dip into television broadcasting in the early 1990s, Alcatel had to report a FFr25bn net loss last year.

There is no doubting Mr Tchuruk's desire to diversify Alcatel away from its core business of big public telephone exchanges – whose prices have plunged in the past couple of years – and into more profitable mobile phone and telecommunications transmission equipment. But, at this stage, Alcatel appears to have a less precise idea of what it wants from either Thomson-CSF or Multimedia.

However, both suitors see the general value of getting their hands on the technology of Thomson, which has been the recipient of considerable government money in recent years. Last year it spent nearly FFr10bn on research (out of total turnover of about FFr70bn) and deposited more than 4,000 patent claims, making it one of France's most active innovators.

Predictably, both Alcatel and Lagardère say getting their hands on Thomson is not a matter of life or death. But the stakes are high. For Lagardère, winning Thomson would put it in the big league of defence contractors; losing it might put a question over the long-term viability of Lagardère's defence interests. Mr Lagardère has denied speculation that he might react to losing the Thomson battle by splitting his group up and returning it to its Matra high-tech and Hachette communications components, or that he might tilt the group towards communications.

The consequences of failing to get Thomson would make less difference to the shape of Alcatel. By contrast, financing a successful bid might dramatically accelerate Mr Tchuruk's plans to alter the balance of Alcatel's holdings in GEC-Alsthom and Framatome, the nuclear equipment company. Mr Tchuruk, whose company has 44 per cent of Framatome, is thought to favour a rapprochement between the two companies. But this is not an idea that appeals to Mr Jean-Claude Leny, Framatome chairman, who argued last month that their activities had nothing in common.

INSIDE

Banco de Crédito Nacional

The restructuring of Brazil's troubled banking industry continued at the weekend with the merger of Banco de Crédito Nacional (BCN) and Itamarati to form the country's fifth biggest private bank. The merged bank, which will retain the name BCN, will have total assets of more than R$11bn ($11bn). Page 19

BZ Bank

Mr Martin Ebner (left), the Swiss financier involved in a long-running corporate governance feud with Union Bank of Switzerland, has taken his first step into retail financial services. BZ Bank, the institutional brokerage arm of Mr Ebner's privately-owned BZ Group, is offering small investors the chance to buy and sell shares in its four investment funds. Page 19

BAT

BAT Industries, the tobacco and financial services group, will today announce the reorganisation of its UK financial services businesses under a new umbrella group. British and American Financial Services will comprise the Eagle Star and Allied Dunbar insurance units and Threadneedle, the fund management arm. Page 18

Fund Management

Those seeking to monitor the performance of emerging markets have plenty of indices to choose from and, in one respect, a multiplicity of indices is good news for a fund manager since they often perform quite differently – increasing the chance that managers can point to at least one which they have been able to beat. However, tracking such indices could lead to some bewildering changes in portfolios. Page 18

Costain warns of administration

By Andrew Taylor, Construction Correspondent

Costain, the troubled UK construction group, would have no choice but to go into administrative receivership if shareholders reject a rescue refinancing proposed this month, Mr Alan Lovell, chief executive, warned yesterday.

The company is fears that opposition from its two largest shareholders, Kharafi, a Kuwaiti construction company, and Raymond International, a Saudi Arabia-based building group, could upset the deal.

The two companies each have stakes of more than 19 per cent. Mr Lovell said the latest information from Kharafi's solicitors was that it intended to oppose the refinancing at an extraordinary meeting in London next Monday. Raymond has also opposed the plan but Costain is more hopeful that it can be persuaded to support the rescue effort.

Mr Lovell said: "It is difficult to see what Kharafi and Raymond have to gain from opposition. It must be clear that the group, in the absence of any other proposals, would have no choice but to go into administration with dire consequences for our 10,000 employees and hundreds of sub-contractors and clients."

Costain has proposed a £73m ($114m) share issue which is expected to leave Intria, a Malaysian construction and investment group, owning up to 40 per cent of the enlarged capital of the UK company. Costain's bankers could be left holding up to 35 per cent, depending upon how much of the issue is taken up by Costain's existing shareholders.

Under terms of the offer for sale, these have the option of buying three new shares at 50p each for every share they already hold. Most of the new stock is expected to be left with the underwriters, given the state of Costain's finances.

Raymond and Kharafi have not made any public comment.

Costain needs only a simple majority from shareholders for the plan to go ahead. At the end of December, it had net debt of £76m and negative shareholders' funds of £29m after years of losses. After the share issue and the sale of its remaining US coal operations and international pipelaying business, it expects to have net cash of £30m and shareholders' funds of about £42m.

Last year, the group made a pre-tax loss of £142.6m after exceptional write-downs and provisions of £93m against the coal business and other assets. Its shares were suspended this month at 39p pending the outcome of the refinancing efforts.

COMPANIES IN THIS ISSUE

Eurotherm rebels scent victory

By Tim Burt in London

The organisers of one of the most open shareholder revolts seen in the City of London yesterday appeared close to victory after Eurotherm, the UK industrial controls manufacturer, said it was ready to revoke the recent dismissal of its chief executive.

The company, which had appeared determined to withstand pressure from institutional investors, is today expected to unveil proposals at meetings with leading shareholders that would involve the reinstatement of Mr Claes Hultman as chief executive

Such a move would be an embarrassing blow for Eurotherm's non-executive directors who 10 days ago ousted Mr Hultman following a boardroom power struggle.

One director, who asked not to be named, yesterday hinted they were prepared to compromise over shareholder demands for a board restructuring.

Those demands involved Mr Hultman's reinstatement as chief executive and the early retirement of Mr Jack Leonard as executive chairman.

The non-executive directors, however, maintained that Mr Hultman had prompted the furore by demanding to be made executive chairman "pretty well straight away".

That claim has been rejected by Mr Hultman's backers, including Mr Robert Biddle, Eurotherm's finance director, and Mr Peter Wade, chief operating officer.

They were said to be dismayed by his dismissal and urged shareholders including Mercury Asset Management, Schroders, Royal Insurance and Prudential to fight for his return.

Those shareholders met the non-executive directors several times last week to voice their support for Mr Hultman, who has been widely credited with turning round the company over the past five years.

One of the directors who voted for Mr Hultman's departure said: "We have listened to what shareholders have said. It may well be that if Claes was prepared to come back as chief executive he could do so if there was an appropriate board structure around him."

Mr Leonard, who is due to retire next February, is expected to relinquish his executive duties while the company steps up its search for a new non-executive chairman.

That position is thought to have been offered to Mr Richard Delbridge, former finance director of HSBC Holdings and Midland Bank, who joined the Eurotherm board in May. But it emerged at the weekend that he did not wish to be considered.

Eurotherm's shares, which fell sharply following news of Mr Hultman's departure, have regained ground amid speculation of his return. They closed up 15p at 534p on Friday, still almost 10 per cent below their level before the boardroom split erupted.

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COMPANY NEWS: UK

New umbrella structure will reduce back-office costs by about £50m

BAT set to group financial divisions

By Motoko Rich and Peter John

BAT Industries, the tobacco and financial services group, will today announce the reorganisation of its UK financial businesses under a new umbrella group.

British and American Financial Services will comprise the Eagle Star and Allied Dunbar insurance units and Threadneedle, the fund management arm. Between them, the three divisions contributed about £370m to last year's group £2.4bn pre-tax profit.

BAFS will have a separate board of which Mr Martin Broughton will be chairman and Mr Sandy Leitch, chief executive of Allied Dunbar, overall chief executive.

As part of the reshuffle, BAT will launch Threadneedle as a retail brand and cut about £50m in back-office costs.

BAT did not comment on redundancies, but it is understood there may be some job losses among its 13,000 staff as the group reorganises administration and information technology operations.

The new board will take strategic decisions but will have no part in the management of Farmers, BAT's US insurance arm, or Imasco, the Canadian financial services, tobacco and retailing group 40 per cent owned by BAT.

BAT rejected any suggestions of demerger. It said the restructuring reflected its commitment to financial services and there were no plans to float or sell the division.

It added it was not immediately interested in expanding into other financial services such as retail banking.

Threadneedle was set up in 1994 when BAT merged the investment operations of Eagle Star and Allied Dunbar. To date no investment products have been sold under the Threadneedle name although it manages all Eagle Star's and Allied Dunbar's funds.

Unit trusts, personal equity plans and other investment products aimed at the upper and middle market will be rebranded as Threadneedle and sold through Allied Dunbar's 3,000-strong sales force and independent financial advisers, marking BAT's expansion into the IFA market.

"Threadneedle is being developed into a serious business and a strong investment brand," said Mr Paul Manduca, Threadneedle chief executive.

Allied Dunbar sales staff will continue to sell insurance and pension products under that brand and offer financial planning advice. Eagle Star will sell insurance and investment products aimed at the direct telephone-based market.

The Threadneedle brand will also expand outside the UK.

The Eagle Star Umbrella Fund in Luxembourg has been re-named Threadneedle Global Assets, and will be launched in Germany this year. Mr Manduca said the business would look for partners in Asia.

Tunnel mediators to report progress

By Geoff Dyer

The two mediators appointed by a French court to assist with the negotiations between Eurotunnel and its banks will report on progress in the refinancing talks this week.

Lord Wakeham and Mr Robert Babinter will present their recommendations about Eurotunnel's refinancing to the French commercial court, the banks and the Eurotunnel board. However, they will not be publicly released.

The key report will be used to try and break the deadlock between Eurotunnel, the Anglo-French operator of the Channel tunnel, and its 225 banks over the terms of a refinancing package. The negotiations have been in progress since September, when Eurotunnel suspended interest payments on £8.4bn of debts.

The two mediators were appointed in February and their current mandate runs out at the end of this month. Although their appointment is technically the first stage of pre-insolvency proceedings, under French law they have only an informal role to help sort out difficulties between a company and its creditors.

It is understood that the company has agreed the broad terms of a refinancing plan with the six leading banks in the syndicate which will include a debt-for-equity swap, the issue of convertible bonds and reduced interest payments on the outstanding debt. The two sides have still to reach agreement, however, on the details of the plan.

At Eurotunnel's annual meeting in Paris last month Mr Patrick Ponsolle, the French co-chairman, gave the group until the end of July to agree a plan with the banks.

StandChart alliance to end

By George Graham, Banking Correspondent

Standard Chartered, the UK-based international bank, has reached agreement on the cancellation of its business alliance with First Interstate, which has been in doubt ever since the Californian bank was taken over early this year by Wells Fargo.

Wells Fargo has agreed to pay Standard about £10m as a cancellation fee.

The arrangement will halt at the end of September, but Standard will continue to offer trade finance and foreign exchange services to former First Interstate clients.

Standard and First Interstate first teamed up in 1992, when the UK bank agreed to buy First Interstate's international, trading and securities businesses. They formed a business development partnership, in which First Interstate referred US customers to Standard for treasury, trade finance and correspondent banking services.

But the partnership came into conflict with a similar arrangement Wells had struck with HSBC, which, like Standard, boasts a strong network in the Pacific region.

When Wells won the $11.5bn (£7.30bn) takeover battle for First Interstate in January, Standard officials said they would much rather keep a relationship with Wells than embark on a contractual row. But they acknowledged there might not be room for two such relationships.

Besides continuing to do some business with First Interstate customers, Standard is also looking at other partnerships to make use of its extensive network in Asia-Pacific.

Earlier this year it struck a deal with Fleet Financial, the fast-growing New England group which this year bought National Westminster Bank's US retail banking operations, under which it will provide "own label" trade finance services to Fleet customers.

WEEKEND SHARE WATCH

A digest of Saturday and Sunday comment on UK companies

P&O, the UK's biggest ferry operator, is under pressure from its principal shareholders to make sweeping boardroom changes, according to the Sunday Telegraph. The newspaper commissioned a survey which showed that leading institutional investors had lost patience with Lord Sterling, the executive chairman, and Sir Bruce Macphail, the managing director. The shares have underperformed the FT-SE-A All-Share Index substantially over the long term. Takeover speculation earlier in the year, a £3bn asset disposal plan, and hopes of a link with Stena – a possibility revived by yesterday's Mail on Sunday – have failed to prevent the stock drifting.

Pentland, the sportswear group, is poised to make a £60m gain on its 23 per cent stake in Authentic Fitness Corporation of the US, according to The Sunday Times. AFC, the US licensee of Speedo swimwear, is the subject of a £470m all-share offer from Warnaco. Pentland said yesterday there would be a board meeting over the next few days to discuss the takeover approach but in principle it had no objections.

MEPC, the third largest UK property group, is tipped as the likely buyer of Caledonian Land, the Scottish industrial property company being sold by SPP, the Swedish financial institution. Sunday Business says MEPC is in detailed negotiations and is expected to pay £80m-£90m for Caledonian, which owns the large Hillington industrial estate outside Glasgow and many smaller industrial premises in Scotland. Neither MEPC nor SPP would comment.

L&G makes switch to Schroders

Legal & General, the life insurer, has appointed Schroders and JP Morgan as investment bankers and financial advisers. Schroders replaces SBC Warburg, which will remain as corporate brokers to L&G. It is understood there was a "cooling" of the relationship with SBC Warburg.

The appointment of JP Morgan marks a formalisation of a relationship which has been conducted on a project-oriented basis. JP Morgan advised L&G on the sale of its commercial general insurance business to Guardian Royal Exchange for £48m last week.

It has also appointed Kleinwort Benson as joint broker, to replace Cazenove.

Spin-off to value Imps at £2.3bn

By Roderick Oram, Consumer Industries Editor

Imperial Tobacco will command an initial market capitalisation of about £2.3bn when it is spun off from Hanson later this year, estimate analysts at Hoare Govett, newly appointed broker to the cigarette company.

Imperial's outstanding productivity and financial performance, ranking it the best among world cigarette companies by many measures, will ensure dividend growth of about 7 per cent a year.

It will probably enjoy a p/e ratio similar to BAT Industries' 9.9 times and a yield slightly lower at 5.7 per cent against 6.4 per cent. The prospectus is due in August.

Talk of Imperial as an acquisition target is wide of the mark, analysts say. Not only would a bid of about £4bn – allowing for a hefty takeover premium and Imperial's debt – be beyond most companies, but it is hard to find a logical buyer.

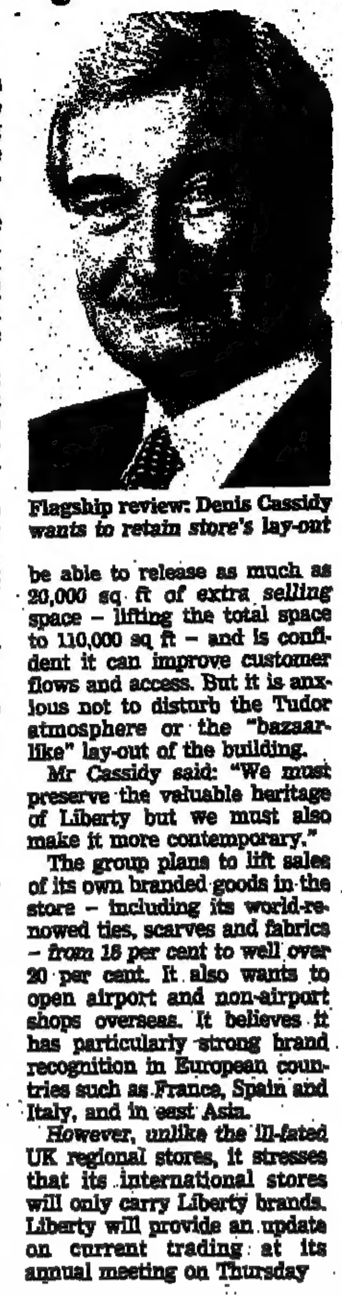
BAT should be more interested in buying Gallaher, the UK subsidiary of American Brands of the US, to unite geographically split brands such as Benson & Hedges; and Imperial's Virginia-blend cigarettes would be of little interest to American-blend makers such as Philip Morris.

Thanks to almost trebling productivity from 1987 to 1995, high free cash flow generation and ultra-efficient use of capital, Imperial outranks other cigarette makers by most measures. Its operating profit per 1bn cigarettes was £8.7m last year against Gallaher's £7.2m, Philip Morris's £5.6m, RJ Reynolds' £4.2m and BAT's £2.3m.

Its return on sales last year was 44.6 per cent, Gallaher 37.9 per cent, Philip Morris 35.7 per cent, RJ Reynolds 26.7 per cent and BAT 20.4 per cent. With foreign markets more than offsetting a slow UK decline, Imperial has increased sales and profit by 6 per cent and 9 per cent a year over the past five years.

Brand holds the key to revival of Liberty

By Christopher Brown-Humes



Flagship review: Denis Cassidy wants to retain store's lay-out

Liberty, the retail and textiles group, is this year expecting to reverse six years of declining profitability after extensive restructuring under new management.

The revival follows the group's decision to close a number of lossmaking businesses, including 20 regional stores, as it moves to expand remaining operations more aggressively.

It has embarked on the most extensive review of its Regent Street flagship store for more than 70 years and plans a concerted drive to exploit the Liberty brand internationally.

Underlying profits at the group slumped progressively from £7.4m in 1991 to £2.1m last year – although the most recent figure is before £18.7m of exceptional charges.

"I am confident we can reverse the downwards profit trend this year," said Mr Denis Cassidy, group chairman. The group estimates its continuing businesses made a £4m pro-forma profit last year, excluding any restructuring impact.

Mr Cassidy joined the group in July 1995, and earlier this year brought in Mr Ian Thomson as chief executive and Mr Andrew Garety as finance director.

They have since cut back the retail business to the Regent Street store, three airport shops at Heathrow and the three Muji shops operated as a joint venture with Japan's Saison group. The aim is to leverage the Liberty brand and boost Regent Street sales substantially. Mr Stewart McColl, the architect and designer, has been given a wide-ranging mandate to review options for the store.

The group believes it might be able to release as much as 20,000 sq ft of extra selling space – lifting the total space to 110,000 sq ft – and is confident it can improve customer flows and access. But it is anxious not to disturb the Tudor atmosphere or the "bazaar-like" lay-out of the building.

Mr Cassidy said: "We must preserve the valuable heritage of Liberty but we must also make it more contemporary."

The group plans to lift sales of its own branded goods in the store – including its world-renowned ties, scarves and fabrics – from 18 per cent to well over 20 per cent. It also wants to open airport and non-airport shops overseas. It believes it has particularly strong brand recognition in European countries such as France, Spain and Italy, and in east Asia.

However, unlike the ill-fated UK regional stores, it stresses that its international stores will only carry Liberty brands. Liberty will provide an update on current trading at its annual meeting on Thursday

Peek in Danish traffic deal

Peek, the multinational traffic and field data systems company, is to acquire the traffic division of Kemp and Lauritzen of Denmark for DKr13.3m (£1.4m).

The division is located in Copenhagen and Odense and employs 25 people. Net assets have been warranted to be not less than DKr9m and 1995 profits before tax and divisional charges amounted to DKr2.4m.

FINANCE

Elusive benchmark of emerging markets

Philip Coggan, Markets Editor, examines the advantages and drawbacks of a range of indices

Stock market indices can be highly influential. As the quarterly reviews of the constituents of the UK's FT-SE 100 index draw close, shares rise and fall as investors speculate on the possibility of their inclusion or exclusion from the rankings.

The same can be true of emerging markets. Taiwan's stock market rose in early June on reports that Morgan Stanley Capital International was to include the market in its Emerging Markets Free index, and the recent decision to include Russia in IFC's Composite index from January 1997 marked a further step on the Moscow market's road to respectability.

Those seeking to monitor the performance of emerging markets have plenty of indices to choose from. Apart from MSCI and IFC, Barings also produces a range of benchmarks, monitoring the performance of emerging markets at country, regional and global level.

Furthermore, MSCI and IFC both make a distinction between their overall indices (named Global and Composite respectively) and indices which allow for the restrictions placed on foreign investment (named, respectively, Free and Investable).

The latter would seem to be a fairer judge of the performance of an international investor. But decisions on which markets and shares are "investable" tend to be subjective; there were some complaints that MSCI gave Taiwan a weighting equivalent to 50 per cent of its market capitalisation in its Free index, when foreign investment in any stock is limited to 20 per cent.

In one respect, however, a multiplicity of indices is good news for a fund manager, since they often perform quite differently. That increases the chance of managers to point to at least one benchmark which they have been able to beat.

In 1994, for example, an emerging markets investor who achieved a loss of 7 per cent would have beaten the IFC Investable Index and the MSCI Free index. But he would have lagged slightly behind the Barings index and would have been well beaten by the IFC Composite index (down 2.2 per cent) or the MSCI Global (down 2.4 per cent).

In 1995, in contrast, the Composite and Global indices were much easier to beat than the Investable and Free indices.

Mr Arnab Banerji of Foreign & Colonial Emerging Markets says that "the Barings index is clearly the highest quality although it's the least used. It has high-quality information on companies and markets, and it really is transparent. But it doesn't cover all the opportunities – in fact, only 50-60 per cent of them, if that."

FUND MANAGEMENT

The other indices also have their drawbacks, says Mr Banerji. "The IFC Investable index is under-researched, and doesn't track companies in sufficient depth to always reweight them when they have a capitalisation issue. The MSCI excludes more markets than the IFC, and is biased towards the US investor by including markets such as Israel."

Mr Banerji says US and Middle East institutions tend to look to the MSCI, while in the UK and Europe, many institutions will use the IFC indices.

There would seem to be a lot less justification for overt, or even covert, index-tracking in emerging markets because the markets are much less efficient than in developed countries and ought accordingly to offer more scope to managers to beat the indices.

According to Mr Steven Bates, head of emerging markets at Robert Fleming, "if you're being driven by benchmarks in the way that you set asset allocation, you can find your management decisions being taken for you by a third party. Reliance on a benchmark to dictate where you go is essentially an abdication of the investor's responsibility".

Mindlessly tracking changes in index constituents could lead to some bewildering changes in portfolios. Last month the IFC added 14 countries, ranging from Botswana to Trinidad & Tobago, to its monthly index.

Mr Bates points out that the biggest change may come next year when Hong Kong (on its own, too well-off to be classed as an emerging market) becomes part of China. "You could find your benchmark's biggest weighting is a market which previously wasn't in the index," he says.

The local indices may be useful for managers running country, or regional, funds, but have to be ignored by the asset allocators. "If you looked at the local indices for a global fund, you would end up with an overdiversified portfolio," says Mr Bates.

So are the indices easy to outperform? "There are long periods when you can beat them quite easily," says Mr Banerji. "In aggressive bull markets, a lot of money goes into a handful of countries and if you have a highly concentrated portfolio, you can beat the index.

"The problem is that in a bear market, you get killed." "A lot of fund managers were boasting that they beat the index in 1992 and 1993 but they were quiet in 1994 and early 1995."

An entirely satisfactory emerging markets index may not appear until all the markets are open to foreigners and it is easy to trade in the individual index constituents. Then an emerging markets index would become like its developed counterparts – a benchmark that it is possible to beat but only by taking an extra degree of risk.

The paradox might be that, when such ideal conditions are satisfied, the markets ought probably not to be classed as "emerging" any longer.

Brazilian banks in R$11bn asset merger

By Jonathan Wheatley in São Paulo

The restructuring of Brazil's troubled banking industry continued at the weekend with the merger of Banco de Crédito Nacional (BCN) and Itamarati to form the country's fifth biggest private-sector bank.

The new bank, which will retain the name BCN, has a net worth of R$1.18bn (about US$1.18bn) and total assets of more than R$11bn. It will be administered by a new holding company, 75 per cent of which will be owned by the controllers of BCN and the remainder by the controllers of Itamarati. Its president will be Mr Pedro Conde, the current president of BCN.

As rumours of the merger spread on Friday, Brazil's stock exchanges suspended trading of Bamerindus, Brazil's fourth biggest bank, for part of the day on talk that it would take part in the deal.

Industry analysts said the merger represented the first stage of a deal that would later include Bamerindus, which has been reported to be in difficulties for several months.

Mr Conde told reporters on Saturday that the banks "had not ruled out the possibility" of a future deal with Bamerindus, although no definite steps had been taken. Bamerindus has so far refused to comment. Analysts say a merger between the three would create Brazil's second biggest private bank.

Brazil's banking industry has seen a series of mergers, acquisitions and closures in the past two years as banks adjust to low inflation and high interest rates under the government's economic reform programme.

BCN and Itamarati denied they would request financing from a government programme, known as Proer, established last year to facilitate mergers and acquisitions in the banking industry.

Mr Olacyr de Moraes, president of Itamarati, said the deal would enable him to concentrate on his other business interests, which include soya, sugar cane, railways and construction.

Mr José Eduardo de Andrade Vieira, president of Bamerindus, resigned as agriculture minister in April to dedicate his time to running the bank. Bamerindus has sold assets in many of its non-core activities and says it has reached a deal on the restructuring of an indebted paper mill, Impacel.

Mr Vieira told a Brazilian newspaper last week that Bamerindus needed R$1.5bn to balance its books and was in talks with CEF, the federal savings bank, over the sale of its R$2.3bn mortgage portfolio.

Munich Re lifts dividend after jump in profit

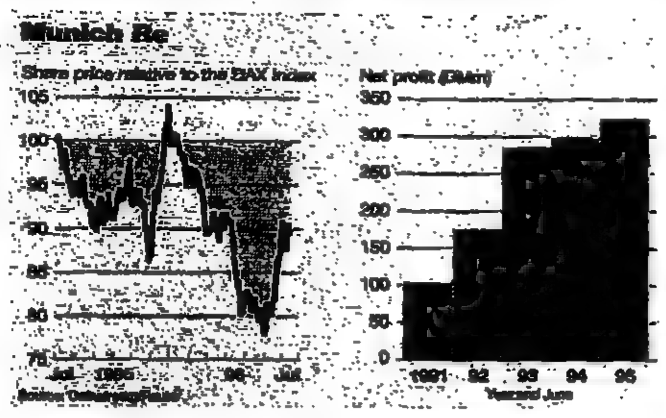
By Andrew Fisher in Frankfurt

Munich Re, the world's largest reinsurance company, has announced a sharp rise in its dividend after a "very satisfactory" financial year and said it expected to be included in the German stock exchange's DAX index of 30 blue chips.

The group gave no figures, but said profits for the year to June 30 were "significantly larger" than in 1994-95, when net income rose 8 per cent to DM325m ($213m).

The dividend is being increased from DM13.50 to DM16 a share, the fourth increase in the past four years. Since 1992, the dividend has risen by 60 per cent.

Munich rose DM95 on Friday to close at DM3,240 on the announcement; it also plans to split its shares into smaller units. A share index committee of stock exchange and bank officials meets tomorrow for its annual discussion on the DAX's composition.



Chairman Hans-Jürgen Schinzler

Deutsche Börse, which runs the Frankfurt stock and futures exchanges, said it could not comment on how the DAX might change. It has already been decided that Deutsche Telekom will be included after its DM15bn share issue in November.

Since Telekom will have such a large DAX weighting, analysts said this could open the way for Munich Re. This is because insurance companies would then have a less dominant rating. At present, the Allianz insurance concern accounts for around 12 per cent of DAX market capitalisation. Munich Re, with a market capitalisation of DM25bn, would make up around 4-5 per cent.

The companies which analysts expect to be removed from the DAX 30 index are Metallgesellschaft, back in profit after nearly collapsing three years ago, and Continental, the tyre manufacturer. Both have low market capitalisations and sales compared with other index members. Changes to the index will take effect in September.

Munich Re made clear its ambition of joining the DAX blue chip index, which would mean that big investors which track the index would increase their holdings.

"As the largest company of its type in the world and an established global player, Munich Re belongs in the DAX 30," the group said.

Mr Dieter Hein, analyst with BHF-Bank, said Munich Re easily met the criteria for inclusion in the DAX, namely that market capitalisation and share turnover were among the top 35 stocks. "This is long overdue," he added.

He also said the larger than usual rise in the dividend – 18.5 per cent – indicated profits must have increased even more steeply. The company said it was continuing to terminate unprofitable business and concentrate on profitable lines.

Premium income edged up DM100m to DM29bn, including DM19bn in reinsurance. Underwriting results improved, while investments rose DM7bn to DM102bn.

Klaus Jacobs in second AFG buy-out attempt

By William Hall in Zurich

Mr Klaus Jacobs, the Swiss financier, is making a second attempt to buy out the minority shareholders of Allgemeine Finanzgesellschaft, a publicly-quoted Zurich holding company which he has controlled since March 1991.

Klaus J. Jacobs Holding, Mr Jacobs' holding company, has offered SFr390 a share for 33 per cent of AFG in a deal worth about SFr28.1m ($22.3m).

AFG, whose interests range from windsurfing boards to cotton trading and offshore banking, has been one of Mr Jacobs' less successful investments since he sold Jacobs Suchard, the family-controlled chocolate business, to Philip Morris for SFr3.1bn in 1990.

KJJ said it had decided on the move because of losses on AFG's recently acquired Mistral sports group. The group, which is the core of Mr Jacobs' efforts to build up a leading international sporting goods company, is expected to lose SFr2.6m for the year ending August 31 1996 and writing off the remaining goodwill in Mistral will produce an overall loss of SFr13m for AFG.

Mr Jacobs bought 50.1 per cent of AFG in 1991 for SFr430 a share. A year later he tried to buy the rest at SFr300 a share, but this was rejected. He is now offering a premium of 18.2 per cent to last Friday's closing price of SFr330.

Mr Jacobs has been criticised in the past for his treatment of minority shareholders. Many investors are bitter at the way the Jacobs' family was able to secure better terms for the sale of its controlling stake in Jacobs Suchard.

Since Mr Jacobs took control of AFG in 1991 its shares have fallen by close to a fifth, while the Swiss equity market has more than doubled.

His failure to make a success of AFG is in sharp contrast to his investment in Adia, the temporary employment agency, which is in the process of being merged with Ecco, its French rival.

Last week, Mr Jacobs sent reverberations through the world chocolate market when he announced that his Callebaut chocolate business was taking over France's Groupe Barry in a move which would give him control of 15 per cent of the world's cocoa bean processing capacity.

Ebner takes BZ funds into retail market

By William Hall in Zurich

Mr Martin Ebner, the Swiss financier involved in a long-running corporate governance feud with Union Bank of Switzerland, has taken his first tentative step into retail financial services.

BZ Bank, the institutional brokerage arm of Mr Ebner's privately-owned BZ Group, is offering small investors the chance to buy and sell shares in the group's four investment funds – BK Vision, Pharma Vision, Gas Vision and Stillhalter Vision – which have a combined market capitalisation of SFr11.7bn ($9.3bn).

Until now the funds, which take big positions in a few companies, have been aimed at large investors. Under the new service, BZ Bank will deal directly with retail investors and offer cheap commission rates.

The shares of Pharma Vision and BK Vision, Mr Ebner's two biggest funds, are being split in a further effort to attract small investors.

Mr Ebner said that the move into retail brokerage should not lead to any significant growth in the 16-strong workforce of BZ Bank.

In the half year to end-June 1996, BZ Bank reported a 11.3 per cent year-on-year drop in net income to SFr43.8m. A 59.4 per cent rise in brokerage commission and fee income, to SFr78.4m, was more than offset by a sharp drop in trading income and higher provisions.

Despite the fall in BZ Bank's first-half profits it is still more profitable than its bigger rivals.

Vontobel Group, one of Switzerland's leading private banks, with more than 500 staff, on Friday reported an increase in net income over the same period of 72 per cent, to SFr37.2m, helped by sharply higher trading income and a 40 per cent jump in fee and commission income to SFr94m.

The difference in performance is partially explained by the fact that Vontobel's first-half operating expenses rose 9 per cent, to SFr68.30m, whilst BZ Bank's fell 1.7 per cent to SFr3.25m.

NEWS DIGEST

Docks de France considers alliance

The war of words between French retailers Docks de France and Auchan has intensified amid continued speculation that Tesco, the UK supermarket group, may be considering making a move. Mr Michel Deroy, the chairman of Docks de France, suggested in a newspaper interview that he would be willing to ally with another retailer in an effort to prevent the hostile FFr17bn ($3.3bn) bid from Auchan. Tesco is understood to be considering a 'white knight' intervention, which could cost it up to £2.5bn ($3.9m). Mr Deroy indicated that he had no objection to becoming involved with a foreign group. "I do not relive the battle of Agincourt every day," he said.

Mr Deroy described Docks de France, which controls the Mammouth supermarket chain, and Auchan as like "water and fire, black and white". He also criticised the FFr1,250 per share bid by Auchan, which he said offered no premium. He stressed that Auchan's bid had always been hostile and said Mr Gerard Mulliez, Auchan's founder, had never contacted him to discuss the bid in advance.

Auchan questioned a number of Mr Deroy's points and emphasised its intention to ensure the permanence of Docks de France. It said Mr Deroy and Mr Mulliez had met for three hours on May 30, and that three meetings between the boards and shareholders of the two groups had taken place between June 6 and June 21. *Andrew Jack and David Owen, Paris*

Swiss drug groups ahead

Switzerland's leading pharmaceutical and chemical companies reported stronger than expected sales growth in the first six months of 1996. Sales at Roche, the biggest Swiss company in terms of stock market capitalisation, rose 8 per cent to SFr7.8bn ($6.2bn). Ciba increased first-half sales by 4 per cent to SFr11.4bn and Sandoz raised sales 7 per cent to SFr7.9bn.

The highlight of the first-half performance of all three companies was the strong growth in pharmaceutical sales. Roche's sales rose 10 per cent to SFr5bn, with sales of many of its top-selling products recording double-digit gains. Sandoz's first-half pharmaceutical sales rose 10 per cent to SFr3.8bn, equal to 13 per cent growth in local currency terms. Ciba's pharmaceutical sales rose 6 per cent to SFr3bn, or by 7 per cent in local currency terms. Ciba is in the process of merging with Sandoz to form a new company, Novartis. *William Hall, Zurich*

CBA issue priced at A$10.45

The Commonwealth Bank of Australia share issue has been priced at A$10.45 per share, at the lower end of market estimates of A$10.50 to A$10.80. The price is thought to have been calculated to ensure a strong after-market, following a week of stockmarket volatility. Proceeds from the sale of the Australian government's final 50.4 per cent stake in the bank will be more than A$5bn (US$4bn). As part of the sale, CBA is buying back 100m shares from the government. The public offer, shareholder entitlement offer and institutional offer were all oversubscribed. *Bethan Hutton, Sydney*

Copper price hits Phelps Dodge

Phelps Dodge Corporation, one of the world's largest copper producers, said second-quarter earnings were reduced by $12m, or 18 cents per share, because a sharp drop in copper prices in June forced provisionally-priced copper concentrate transactions recorded in earlier months to be re-priced at lower levels. Second-quarter net income was $126.3m or $1.90 per share, down from $159.5m or $2.28 per share in the 1995 second quarter. Sales for the quarter were $957.7m against $1.02bn. *Laurie Morse, Chicago*

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

The demise of hyper-inflation

The decisive moment in any stock-market cycle is the one where investor assessments of the outlook turn from half-full to half-empty. While the half-full approach is in vogue, potentially damaging news is brushed aside as irrelevant. Once half-empty is the working assumption, every piece of bad news is highlighted.

At such moments, people start rediscovering the sort of chart you see alongside. Of course, such confections are essentially artificial: by comparing complete past cycles with the incomplete present, they imply an outcome which is by no means pre-ordained. In 1987, similar chart comparisons with 1929 implied that a longer, much more damaging phase of destruction of value was in store. But in fact, the market recovered and 1987 is merely - from the vantage-point of 1996 - a brief interruption in a long upswing.

The accompanying charts can themselves be seen in both half-full and half-empty fashion. From the half-empty point of view, they imply that a correction of greater or lesser scale may be due. From the half-full angle they suggest that even a sharp adjustment of share prices, as in 1987, will still undo only a part of the advance seen in recent years. Of course, the Dow Jones Industrial Average has now reached such a stratospheric level that even a modest re-adjustment would still wipe a thousand or so points off the index. How you interpret that thought depends, once again, on whether you are seeing the glass as half-full or half-empty.

A good test as to whether the world has shifted towards a half-empty interpretation of events will come with the market's reaction to Alan Greenspan's regular testimony to Congress on Thursday.

All central bankers specialise in the bafflingly even-handed exposition of current trends, but Mr Greenspan is particularly adept at providing scope for almost every possible interpretation of the state of the economy. The conclusion the markets draw from his comments will therefore say more about the zeitgeist than it will about the Federal Reserve's real judgment of events.

The half-full, half-empty analysis applies also to the prospects for emerging markets, and in particular to one little-noticed fact which emerges from the latest forecasts from ING Barings*: hyper-inflation is dead. For 1997, the Barings team forecasts average G7 consumer price inflation at 2.4 per cent, with average emerging-market inflation at 13.9 per cent. That might still seem high, though it includes Russia, where inflation is expected to be 45 per cent.

But the contrast with the recent past is striking. In the period 1990-95, G7 annual inflation was 3 per cent; in the emerging markets it was 188 per cent. For the period 1996-2000, G7 inflation is forecast at 2.8 per cent and emerging markets inflation is put at 10 per cent. (These comparisons exclude Russia and central and eastern Europe.)

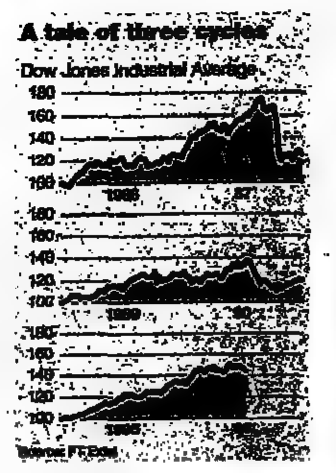
Perhaps just as significant is a sharp swing in real interest rates in emerging markets, from sharply negative to positive. In the 1990-95 period, short-term interest rates in emerging markets were 36 per cent, a third of the level of inflation. In 1996-2000, interest rates are forecast at 12.4 per cent - a real interest rate of 2 per cent, markedly lower than in G7 countries but an important change from the past.

How you interpret this fact depends on how optimistic you are feeling about emerging markets as an asset-class. From one point of view, it represents a further stage of maturity in these economies. Positive real interest rates go hand in hand with currency convertibility and freedom of capital market flows: together they provide fresh evidence of these countries' integration into the global economy. Such a move should give investors greater confidence in the lasting attractions of the emerging markets.

From a more pessimistic point of view, however, the shift from an environment of high inflation and negative real interest rates to a more conventional outlook has its drawbacks. Traditional quoted companies in these economies often got big on the back of their ability to profit from the past pattern of inflation and interest rates. Will they be as skilful at coping with the new era? How will banks, in particular, cope with an entirely new set of stresses? And will political and social stability be threatened by the shift from one set of inflationary and financial relationships to another, quite different one?

In the long run, emerging markets are rendered significantly *more* attractive by this shift. In the short run, however, the change places a premium on careful choices: of those countries where the threats to stability are most manageable, and of those companies most capable of adjusting to an entirely different financial climate.

**Global Macroeconomic Trends and Forecasts, July 1996, ING Barings, London. +44171-767 1000.*



Total return in local currency to 11/7/96

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	-0.01	0.06	0.07	0.17	0.11
Month	0.46	0.04	0.28	0.32	0.73	0.46
Year	5.69	0.55	4.63	6.26	11.58	7.26
Bonds 3-5 year						
Week	-0.38	-0.17	0.43	0.11	0.23	[illegible]
Month	-0.95	0.09	-0.22	0.13	1.39	[illegible]
Year	3.12	1.54	7.95	10.69	21.24	[illegible]
Bonds 7-10 year						
Week	-0.77	-0.32	0.42	-0.04	0.48	[illegible]
Month	-1.18	0.12	0.31	0.23	2.32	[illegible]
Year	[illegible]	0.91	8.89	12.94	23.10	[illegible]
Equities						
Week	[illegible]	-2.09	0.10	-2.20	-1.80	[illegible]
Month	[illegible]	[illegible]	1.90	-2.10	-0.80	[illegible]
Year	[illegible]	25.40	17.30	11.90	[illegible]	[illegible]

Source: Cash & Bonds - Lehman Brothers. Equities - FT/S&P Actuaries Indices. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

Siemens set for growth as restructuring costs fall

Siemens, the German electronics company is expected to report today that earnings in the nine months to June rose about 20 per cent, confirming company projections of 20-25 per cent profit growth in the year to September, analysts said.

However, the growth in earnings is likely to come from a combination of lower restructuring costs and the absence of periodical pension contributions, rather than an improvement in operating performance, say analysts. *AFX, Frankfurt*

■ **Spanish banks:** The first-half earnings season for Spain's big four banks is expected to kick off on Wednesday, when Banco Bilbao Vizcaya is due to report.

BBV is expected to show the strongest growth in earnings, with net interest income recording a double-digit increase, analysts said. All Spanish banks are expected to show similar earnings growth to that registered in the first quarter.

First-half results will be characterised by weak loan demand, with interest income margins stabilising after falling over recent years.

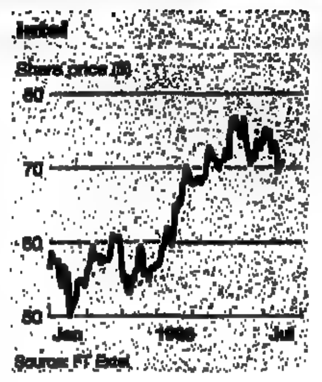
Most of the profits growth will be provided by strong growth in revenues from treasury operations and higher commissions because of cash inflows into investment funds and lower non-performing loans.

This month also sees results from Argentaria, Corp Bancaria de Espana, Banco Santander and Banco Central Hispanoamericano. *AFX Madrid*

■ **Intel:** The world's largest semiconductor maker is expected to post second-quarter earnings of \$1.05-\$1.12 per share tomorrow compared with 99 cents a year earlier, according to a survey by the IBES tracking firm. Analysts say the company's dominance of the microprocessor sector will be reaffirmed. The IBES consensus forecast for Intel's eps in the second quarter was \$1.09.

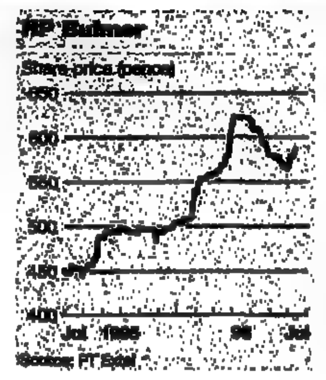
Unlike Advanced Micro Devices and Motorola, which had disappointing second-quarter earnings, Intel is expected to be less affected by high inventories and falling prices and will continue to profit from its share of up to 85 per cent of the domestic market.

In June, Intel said consumer demand was falling and warned that second-quarter revenues would be flat compared with first-quarter revenue of \$4.64bn, but said margins would be strong and at the upper end of its 48-52 per cent target range.



Analysts expect revenue gains from the Pentium Pro chip, introduced earlier in the year, to begin to emerge during the quarter. *AFX, New York*

■ **Citicorp:** The US banking group is expected tomorrow to report second-quarter earnings per share of \$1.79 on a fully diluted basis, against \$1.57 a year earlier, according to a survey by IBES. Analysts say strong growth from emerging markets is expected to be deflated partially by credit card losses. In the first quarter, Citicorp surprised many analysts with a higher-than-expected eps of \$1.75 after earnings from emerging market and trading operations surpassed expectations. *AFX, New York*



■ **US carmakers:** Chrysler is expected to post sharply higher second-quarter profits, helped by strong sales of its minivans, while Ford and General Motors are expected to report little change due to production launches and other costs, analysts said.

The consensus forecast for Chrysler is \$2.73 per fully diluted share, compared with 70 cents a year earlier. Ford is expected to report on Wednesday a slight decline in eps to \$1.20 per fully diluted share from \$1.30 a year earlier, while General Motors is expected to report tomorrow an eps of \$2.49, from \$2.39.

Results at Chrysler, the smallest of the three carmakers, have been lifted by strong demand and a big increase in production during the quarter, analysts said. Its production for June was up nearly 75 per cent from a year ago, led by a near-doubling in light truck output, while second-quarter production is expected to rise to 775,600 vehicles from 594,400 a year ago. *AFX, New York*

■ **David S Smith:** The City of London will be keenly awaiting the annual results on Wednesday from the UK paper, packaging and office products group to see what it has to say about the outlook for paper prices. Analysts' forecasts for the year to the end of May range from pre-tax profits of £110m-£125m, against £97.7m, but a late emerging consensus has focused on £120m (\$187m) and earnings per share of 29.3p.

However, what Smith has to say about current paper prices will be more important. Analysts expect the group to report that the decline in prices has slowed, and that a period of consolidation appears imminent.

■ **HP Bulmer:** The UK cider producer is expected on Wednesday to report a 10 per cent rise in annual pre-tax profits to £27.5m before exceptionals.

The group, which includes the Strongbow and Woodpecker brands, has taken advantage of continuing strong growth in UK cider volumes, and has increased market share at the expense of rival Matthew Clark. Charges of about £3.5m will cover distribution rationalisation.

■ **Emap:** The board of the UK publishing, commercial radio and exhibitions group faces a split at the annual meeting on Thursday when it plans to propose altering its articles of association to make it easier to remove non-executive directors.

Two long-serving non-executives, Prof Kenneth Simmonds and Joe Cooke, will vote against the proposed changes.

INTERNATIONAL EQUITIES

US retrenchment unsettles IPOs

The weakness on Wall Street has caused the international primary equity market to falter after a spectacular run since the start of the year.

Although no high-profile issue has had to be withdrawn, there are tell-tale signs that the market is becoming difficult. Two Indonesian deals – a \$238m offering for PolySindo and a \$130m offering for Pasaraya – as well as a \$55m GDR offering for Saw Pipes of India were withdrawn last week because of a lack of investor demand.

The recent poor performance of IPOs is another sign that investors, particularly those in the US, are clamming up. One equity syndicate manager said that of 12 new issues launched in the US over the last week, all were trading below their issue price.

There have also been disappointments in the UK stock market. Orange, the mobile phone company which was floated amid great fanfare in March and seen then as the hottest issue of 1996, initially saw its shares rise to a high of 254p from an issue price of 205p but they have since slumped to 190½p.

The share price performance of Sun Life and Provincial, the UK and Ireland arm of loss-making French insurer UAP, has also been lacklustre. Launched at 235p last month, the shares closed at 216p on Friday.

Signs of retrenchment among US investors is cause for alarm since it has been the heavy outflows of funds from the US which have fuelled the international primary equity market this year. "People are starting to ask which deals will get done," said one equity syndicate manager, noting that even pricing issues below the range has not prevented the shares from trading down.

Some bankers are hoping that the change in sentiment in the market will be transitory, in view of the heavy calendar which has built up for the third and fourth quarters, the most notable transactions being the privatisation of Deutsche Telekom and a second tranche of shares in Eni, Italy's partly-privatised energy company.

So far the casualties of the greater selectivity on the part of investors have been the marginal transactions with unappealing investment stories. Mainstream offerings, such as the recent L500bn disposal by the Italian government of shares in the banking group Imi, have been comfortably oversubscribed. Heavy demand for shares in TVK, the Hungarian chemical producer, shows that east European offerings are still in favour.

The large offerings currently in the market will provide a more accurate assessment of the level of international demand. The privatisation of British Energy, which closed on Friday, attracted a solid institutional book but the bids were mainly between 205p to 220p, at the lower end of the 180p-280p range.

Other large transactions include Ahold's \$1.8bn global share offering and the \$2bn disposal by Volvo, the Swedish car and truck maker, of at least two-thirds of its 14 per cent holding in the Swedish-US pharmaceutical group Pharmacia & Upjohn. Demand for both offerings is said to be strong.

Elsewhere, banks keen to find ways to accommodate UK pre-emption rights in international share offerings will be closely watching the equity offering which will fund General Cable's buy-out of its joint-venture partner, Singapore Telecom, in Yorkshire Cable as well as raise £45m for itself.

The shares raising cash for the company will be sold via a vendor placing which will shield existing shareholders from dilution but the price they pay for the shares will be determined by the book-building exercise through which the shares owned by Singapore Telecom will be sold.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JULY 12 1996								THURSDAY JULY 11 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (79)	196.05	3.2	187.25	[illegible]	155.19	163.54	[illegible]	4.50	198.26	188.94	[illegible]	156.84	165.37	[illegible]	174.36	174.36
Austria (24)	179.83	[illegible]	171.75	125.79	142.35	142.37	8.6	1.98	183.16	174.57	127.64	144.92	144.85	198.98	168.11	197.87
Belgium (27)	206.96	-1.1	197.65	144.76	163.82	[illegible]	5.5	4.16	207.48	197.73	[illegible]	164.14	160.56	215.81	186.06	197.55
Brazil (28)	189.70	37.5	181.18	132.69	150.16	[illegible]	42.2	[illegible]	187.41	178.60	[illegible]	148.26	346.69	189.70	123.97	145.42
Canada (120)	159.35	7.3	152.19	111.46	126.14	158.06	7.6	2.29	159.76	152.25	111.32	126.38	159.55	165.12	[illegible]	160.63
Denmark (30)	304.49	5.4	290.61	212.69	[illegible]	242.89	11.6	1.89	307.04	[illegible]	213.95	242.91	244.80	309.01	[illegible]	279.38
Finland (23)	190.72	1.9	182.15	133.40	150.97	186.24	9.2	2.68	192.83	183.77	[illegible]	152.55	188.14	276.11	171.73	258.45
France (96)	191.43	6.7	182.83	133.91	151.53	154.76	12.4	3.11	193.74	184.84	135.00	153.27	156.50	198.39	187.70	188.39
Germany (59)	170.81	4.4	163.26	119.56	135.29	135.29	11.1	1.84	172.80	164.68	120.41	[illegible]	136.71	174.98	155.68	162.85
Hong Kong (59)	420.52	8.5	401.63	[illegible]	[illegible]	417.85	8.6	3.42	424.92	404.95	296.09	336.16	422.22	[illegible]	348.81	376.36
Indonesia (27)	205.20	–	195.98	[illegible]	162.43	203.56	–	1.56	204.95	195.32	142.81	162.14	209.07	–	–	–
Ireland (16)	277.81	8.7	265.14	194.19	219.75	245.42	9.3	3.50	280.53	267.35	195.48	221.98	[illegible]	290.82	235.88	242.40
Italy (59)	79.80	8.3	76.22	55.82	63.17	91.34	4.6	2.41	81.04	77.23	56.47	64.11	92.74	84.53	67.22	77.80
Japan (481)	149.05	-3.6	[illegible]	104.26	117.99	104.25	3.2	0.73	150.96	143.87	[illegible]	119.43	105.19	164.88	137.75	152.94
Malaysia (107)	562.57	16.0	537.29	393.51	445.31	540.03	[illegible]	1.66	563.16	536.70	[illegible]	445.83	540.28	585.00	425.77	549.50
Mexico (18)	1146.02	10.6	1094.53	801.63	907.16	8569.74	9.7	1.39	1161.80	1107.20	809.55	919.11	8705.38	1325.65	[illegible]	1265.74
Netherland (19)	291.14	6.8	278.06	203.65	230.46	227.12	[illegible]	3.17	292.20	278.46	203.60	231.16	227.86	299.69	245.79	256.55
New Zealand (15)	80.65	[illegible]	77.08	56.42	63.84	82.28	-3.7	4.36	81.71	77.87	56.93	64.64	83.02	85.34	75.94	84.58
Norway (35)	252.66	9.2	[illegible]	176.73	200.00	223.13	12.5	[illegible]	255.55	243.54	178.07	202.17	225.51	256.94	222.24	257.58
Philippines (22)	209.48	–	200.07	146.53	165.82	273.36	–	0.66	[illegible]	[illegible]	146.54	166.38	274.44	–	–	–
Singapore (44)	396.86	-2.5	379.05	277.61	314.16	259.80	-2.1	1.46	401.96	383.09	280.11	318.01	282.33	465.21	356.81	395.76
South Africa (44)	349.50	-0.3	333.80	244.47	276.66	337.26	9.8	[illegible]	360.72	343.77	[illegible]	285.37	342.77	437.76	342.04	343.97
Spain (37)	177.00	7.2	169.05	123.81	[illegible]	171.67	13.1	3.40	178.72	170.32	124.54	141.39	173.26	183.85	145.15	154.20
Sweden (48)	344.14	[illegible]	328.68	240.73	272.42	[illegible]	[illegible]	2.59	347.74	[illegible]	242.31	[illegible]	349.28	360.77	280.13	288.75
Switzerland (37)	245.50	4.0	234.47	171.72	194.33	191.62	13.8	[illegible]	[illegible]	235.92	172.49	195.84	192.96	262.34	191.24	207.58
Thailand (46)	163.57	[illegible]	156.22	114.42	129.48	161.38	-1.9	[illegible]	166.35	158.53	115.91	131.60	164.10	193.95	146.74	189.91
United Kingdom (200)	234.32	1.8	223.80	163.91	185.48	223.80	1.7	4.18	236.12	225.02	164.53	186.79	225.02	237.48	216.52	221.93
USA (627)	262.55	4.5	250.76	183.65	207.83	262.55	4.5	2.25	262.30	249.97	[illegible]	207.50	262.30	276.47	[illegible]	226.87
Americas (798)	240.34	5.0	229.54	168.11	190.25	202.10	5.0	2.24	240.14	228.86	167.33	189.98	201.94	252.43	206.37	210.24
Europe (710)	209.42	4.3	[illegible]	146.49	[illegible]	193.28	7.9	3.09	211.32	201.38	147.25	167.17	184.67	213.30	189.33	194.97
Nordic (136)	298.31	8.2	284.91	208.67	236.14	[illegible]	11.2	2.37	301.39	287.23	210.01	238.43	261.65	306.61	261.13	276.27
Pacific Basin (879)	162.05	-1.9	154.78	[illegible]	128.28	115.10	3.4	1.20	164.00	156.29	114.28	129.74	116.12	177.01	149.86	168.53
Euro-Pacific (1589)	181.67	0.9	173.51	127.06	143.81	[illegible]	[illegible]	2.11	183.60	174.97	127.93	145.25	142.07	190.57	166.51	176.41
North America (747)	256.27	4.6	244.75	179.26	202.85	255.63	4.7	2.25	256.06	244.03	178.42	202.57	255.44	269.52	220.03	224.04
Europe Ex. UK (510)	190.81	5.7	182.23	133.47	[illegible]	158.99	11.4	2.51	192.66	183.62	134.26	152.43	160.25	194.98	169.65	175.93
Pacific Ex. Japan (398)	281.90	6.5	269.24	197.19	223.15	242.89	[illegible]	3.04	284.41	271.04	198.18	225.00	244.94	296.68	243.59	268.02
World Ex. US (1799)	183.06	1.2	174.84	128.05	[illegible]	145.43	[illegible]	2.11	184.98	176.29	128.90	146.24	146.60	191.55	167.36	177.42
World Ex. UK (2226)	204.92	2.7	[illegible]	143.34	162.21	174.61	5.7	1.97	206.04	196.36	143.57	163.00	175.33	213.05	185.61	190.21
World Ex. Japan (1945)	239.63	4.8	226.87	167.62	189.69	226.94	6.0	2.59	240.50	229.19	167.59	190.26	227.60	247.55	212.62	215.99
The World Index (2426)	207.51	2.6	198.19	145.15	164.26	179.15	5.3	2.17	208.69	199.88	145.41	165.09	179.91	214.95	188.49	192.99

NEW YORK

COMMODITIES

Traders fac

CURRENCIES

Dollar to

MARKETS: This Week

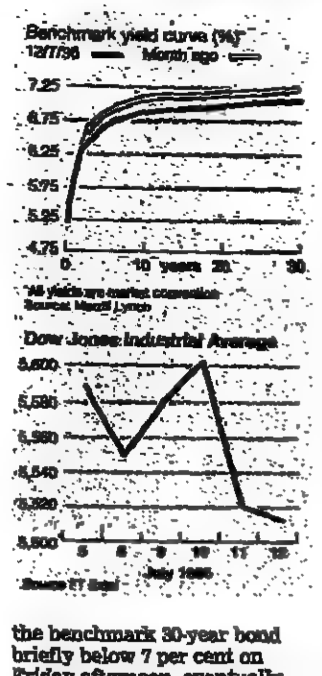
NEW YORK By Richard Tomkins

It is going to be another worrying week in the US stock markets. For months, economists have been warning that share prices are heading for a fall, and after the tumbles of the past two weeks, investors are nervous that the long-awaited correction is now upon them.

Yet the Dow Jones Industrial Average has been showing remarkable resilience: each big dip seems to be followed by at least a partial rally as bargain-hunters step in, and some analysts are already describing present market levels as a buying opportunity.

For stocks, this week's most important feature is likely to be the onset of the second-quarter reporting season. The main reasons for last week's upsets were poor results from Motorola and a profits warning from Hewlett-Packard, the combination of which sent a shock-wave through the high tech sector and prompted worries that US corporate earnings might turn out to be lower than expected. So as the results begin to pour out today, any more big disappointments could prompt another rout.

It is a different story for bonds, which seem to have decoupled themselves from the stock market. Last week, bonds rallied strongly amid a flight to safety from stocks: rising prices took the yield on



the benchmark 30-year bond briefly below 7 per cent on Friday afternoon, eventually leaving it a touch above that level.

Tomorrow's publication of the consumer price index will ruffle few feathers if, as expected, it shows inflation at a modest 0.2 per cent for June.

The big event comes on Thursday when Fed chairman Mr Alan Greenspan makes his mid-year appearance before Congress to deliver his view on the outlook for the US economy.

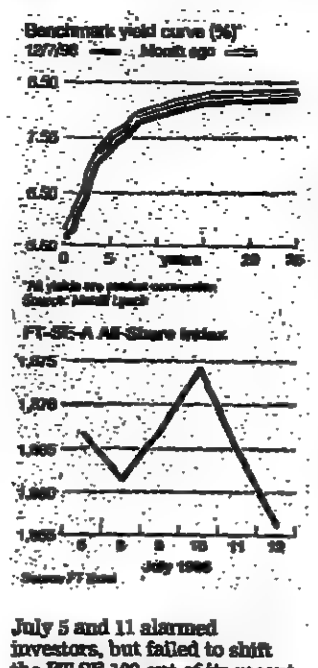
LONDON By Philip Coggan

The key event of the week in the UK will be the publication on Wednesday of the minutes of the June 5 meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England.

The chancellor decided to cut interest rates at that meeting, somewhat to the market's surprise. Investors will be keen to see whether, as many suspect, the governor did not approve of the move. While Mr Clarke can always override the governor, few think he would want to be in open dispute with Mr George: accordingly, the greater the governor's disapproval of the June move, the less is the likelihood of further cuts.

Some important economic data during the week will be of interest to the gilts market. Tomorrow's public sector borrowing requirement figures represent the first test of the chancellor's revised £27bn forecast for the current fiscal year; the rapid growth of broad money supply, a long-term inflationary worry for some economists, may be further illustrated by Thursday's M4 data; and average earnings data on Wednesday will show whether wage costs are rising.

With few corporate results to analyse, the London equity market will focus on Wall Street. Sharp falls in the Dow Jones Industrial Average on



July 5 and 11 alarmed investors, but failed to shift the FT-SE 100 out of its recent 3,650–3,850 range. A sustained fall in the Dow would represent a greater threat.

The only shift in recent weeks is that smaller companies, which had been outpacing the Footsie in the early part of the year, have started to retreat. The Small-Cap index, having reached a record 2,244.36 in early June, had slipped by 3.8 per cent from its peak by Thursday night.

FRANKFURT By Andrew Fisher

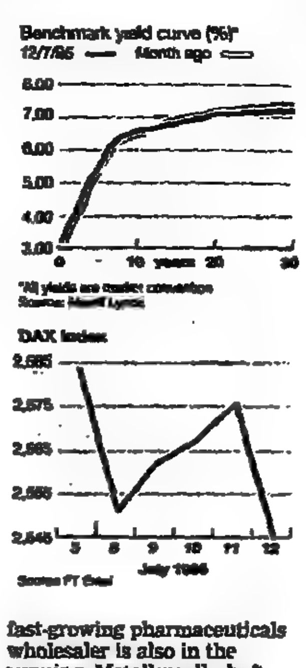
Apart from wondering how the stock market will move this week as a result of uncertainty across the Atlantic, investors will watch to see which shares move in and out of the DAX blue chip index.

Last week, the DAX moved in both directions, ending 1.2 per cent lower. It received impetus from bank stocks as Deutsche Bank disclosed a 5.21 per cent stake in Bayerische Vereinsbank, but Wall Street's adverse reaction to strong economic data, threatening higher interest rates, put a brake on the German market.

BZW noted on Friday that five bank shares had been among the 10 most strongly advancing stocks, and asked: "When did we last have that situation?" It foresaw further out-performance as discussion continued about concentration in over-banked Germany, and in reaction to previous weak bank share performance.

Munich Re also gave the financial sector a fillip with news of a profits rise in its 1995–96 financial year, which some analysts put at more than 20 per cent. The world's biggest reinsurance company bluntly expressed its desire to join the 30 blue chips making up the DAX when the index's composition undergoes its annual change tomorrow.

Deutsche Telekom is already assured of a place after its autumn share issue. Gehe, the



fast-growing pharmaceuticals wholesaler is also in the running. Metallgesellschaft and Continental tyres are the most likely to be removed.

In the money market, attention will be focused on the first DM10bn auction of the "Bubills" the government is issuing to stimulate the short end of the yield curve. These will have a six months' maturity. Foreign investors, notably central banks, are expected to take up much of the issue, which should yield about 3.20 per cent.

TOKYO By Emiko Terazono

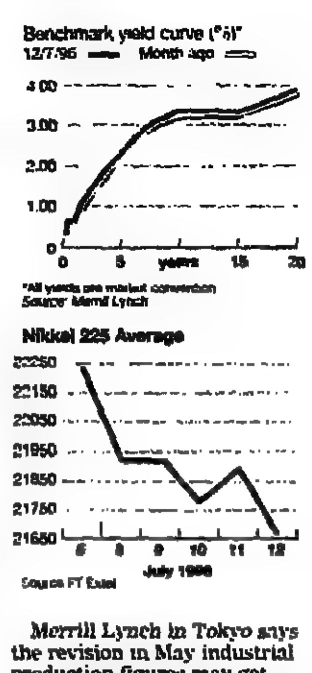
Technical trading, which led activity on the stock market last week, is expected to continue to cause price fluctuations, with investors still concerned over a possible rise in interest rates and volatility on Wall Street.

Record low interest rates for the past year have supported index-linked arbitrage buying. Long cash positions held against the futures market rose to a record 3bn shares earlier in the year.

Cash market activity has dwindled owing to interest rate worries, with daily volumes about 300m shares. Long arbitrage positions currently total about 2.8bn shares, and amid low activity share prices remain vulnerable to arbitrage unwinding.

Bond prices are expected to remain in a range, with most market participants inactive because of increased caution over interest rate movements in the US. Domestic interest rate concerns are unlikely to be helped by the Bank of Japan, which is expected to continue to maintain its neutral stance on the short-term money market.

With wariness mounting over interest rates, investors will be looking at economic indicators to be released this week for signs of an improving economy. This week's calendar of economic statistics is relatively heavy.



Merrill Lynch in Tokyo says the revision in May industrial production figures may get some attention. The consensus suggests minimal revision, but a larger than expected upward revision could shake confidence.

Tokyo department store sales for June are expected to show continued gains, a sign that household consumption is recovering. Actual household consumption figures for May are expected show improving confidence, providing support for spending.

COMMODITIES By Richard Mooney

Traders facing uncertainties

Clouds of uncertainty hung over several leading commodity markets at the end of last week, and traders returning to their offices this morning will be anxious to avoid being caught out by the next moves in prices.

A new outbreak of price volatility in the London Metal Exchange copper market saw an early dive more or less wiped out by the close of play – but confidence in the solidity of downside support was undermined.

At the London Commodity Exchange, meanwhile, cocoa futures, though recouping some earlier losses, were still looking vulnerable to any renewed attempt to break support around the £1,000-a-tonne mark for the September delivery position. In contrast, the gold price was close to the upper end of its recent narrow price range.

"Copper is still trying to find a level after everything that's happened over the past few weeks," one LME trader told the Reuters news agency. Others said they expected prices to revisit levels below the June 25 low of $1,745 as they feared Sumitomo still had positions to dispose of.

September cocoa's Friday rally of £15 still left it £54 down on the week at £1,016 a tonne. But traders were encouraged by the reconquering of the £1,013 support/resistance level.

The victory was far from conclusive, however, and any indication that bigger crops, than have recently been forecast are likely in West Africa, particularly in the Ivory Coast, could encourage speculators to mount another assault on support around £1,000.

On Friday traders were awaiting fresh news from West Africa, where initial forecasts showed a smaller crop. But analysts said wide revisions were likely. "Traders are now looking at good growing conditions in the Ivory Coast as an explanation of the recent fall in prices," said GNI, the London brokerage.

For gold, falling equity values in the US were seen as reducing the likelihood of interest rates there being raised, and therefore as reopening the prospect for an inflation-led rise in the price of the precious metal.

OTHER MARKETS Compiled by Michael Morgan

PARIS

The French equity market has been downgraded by a number of brokers over the past week, and others are set to follow, *writes John Pitt*. J.P. Morgan has cut its rating from "neutral" to "underweight", for instance, while Credit Lyonnais Securities has cut its rating to "market weight".

J.P. Morgan said the poor outlook for the country's economy, and the limited freedom the Bank of France has to cut interest rates independently of the German Bundesbank, indicated that corporate profits may take a turn for the worse.

"The equity market is also vulnerable to any attacks on the franc," it said. "Once the markets understand that Germany has no further scope to cut interest rates, the precarious position of the French economy and its continuing need for monetary easing to stimulate growth may undermine the financial markets."

But there could be a silver lining in that companies have begun to restructure. "Although the state continues to meddle in corporate decision-making, there is some momentum building to this theme," J.P. Morgan said.

At Crédit Lyonnais the feeling is that Germany is set to out-perform France, although the broker is maintaining a year-end target for the CAC-40 index of 2,250.

"The slowdown in the reform process, and the deterioration of estimates on the budget and social security deficit could lead to a temporary shift of interest towards other markets until a new range of government or corporate announcements returns some dynamism to the market," it said.

MILAN

Last week's political infighting over the government's budget proposals left the market with nowhere to go and set a number of analysts rethinking their views on the market.

Goldman Sachs changed its recommendation to underweight from overweight, citing a rapid slowdown in the economy owing to the appreciation of the lira.

The investment bank said the appreciation of the lira appeared to have brought about a very sharp reduction in export growth and production.

The increase in the lira had become problematic, stabilisation of the state deficit was at risk due to potentially slower than projected economic growth, while the potential for bad debts in the banking system was growing, increasing pressure to cut short-term rates more aggressively, said Goldman.

CS First Boston, meanwhile, restated its overweight stance for Italian equities on the basis of a cross-country analysis of return on invested capital in Europe over the last five years, which, it said, showed a close correlation with stock market performance.

UBS also remained positive, even though it expected the stock market to do little more than vacillate around current levels over the next week as the watered-down budget, and inflation-busting talk by Mr Antonio Fazio, governor of the Bank of Italy, implied fading hopes for a cut in interest rates before August.

However, UBS said that its target for the Comit index, which closed on Friday at 644.78, remained in the 650 to 700 range.

HONG KONG

The market is likely to remain in thrall this week to Wall Street, whose steep declines have been tracked in the colony, *writes Louise Lucas*. The Hang Seng index closed on Friday at 10,802.68, and brokers no longer regard 10,800 as a healthy support level.

In terms of overall strategy, Morgan Stanley is recommending investors to look below the bigger names at the layer of companies which performed well last year.

The investment bank said the market appeared to be anticipating a slowdown in earnings growth among the larger caps, from earnings per share growth last year of 15 to 18 per cent to 9–12 per cent this year. Morgan Stanley also rated China-related stocks and saw upside in property and banking counters.

CURRENCIES By [illegible]

Dollar to remain the focus of market attention

Yet again, dollar watchers are likely to hog the limelight this week, as the markets digest the recent share price gyrations on Wall Street – and mull over the outlook for US interest rates.

With the markets split about the likely direction of the US currency, most traders expect the dollar to move in a fairly narrow range.

However, Tuesday's US capacity utilisation and industrial production data could fuel some unease, especially if they give any hint that the US economy might be over-heating.

And in the run up to the next meeting of the Federal Reserve's Open Market Committee later this month, traders will be watching for any sign that the recent strong rise in job growth might be pushing up wages.

Some observers still believe the Fed is unlikely to push up US interest rates too fast – particularly given the fall in equities on Wall Street last week.

However, others insist that it is crucial for the authorities to display clearly their intention to nip any inflationary pressures in the bud.

Mr Paul Chertkow, head of global currency research at UBS Bank in London, said: "The key thing now is confidence in the markets."

On the other side of the Atlantic, the path of European interest rates will also provoke interest after the unexpected rise in a Dutch interest rate on Friday.

The Dutch central bank increased its special advances rate by 10 basis points to 2.70 per cent.

The move occurred after the markets closed on Friday, so economists will have to wait until this morning to see what – if any – impact this has on currencies.

Some traders think the change was purely technical. However, others are speculating that it might provide the first sign of a longer-term shift in the cycle, suggesting that European rates are set to rise later this year.

Against this background, the D-Mark is expected to continue to strengthen slightly.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
KKJ (Switz)	Groupe Barry (France)	Chocolate	$390m	Cocoa strategy
Swiss Telecom (Switz)	Mutiara Telecom (Malaysia)	Telecoms	$265m	30% stake via new shares
Unigate (UK)	Units of Kraft (US)	Food	$120m	UK/Italy buy
Wesley Jessen (US)	Unit of Pilkington (UK)	Glass	$79m	Lens disposals complete
ASSA Abloy (Sweden)	NT Moller Undell (Norway)	Locks	$26m	Newman Tonks continues sales
Bardon (UK)	EL Gardner (US)	Building materials	$25m	Part of twin pack
Danka Business Systems (UK)	Tower Australia/ Datakey (Australia)	Office products	$30m	Distribution deals
Lafarge Coppée (France)	Ennemix (UK)	Building materials	$15.6m	Increased bid
Crédit Local de France (France)	Crédit Communal de Belgique (Belgium)	Banking	n/a	Merger of equals

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, July 12, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7373.43	4750.00	3119.68	4282.43
Albania	(Lek)	154.144	99.3000	65.2174	89.7343
Algeria	(Dinar)	85.4515	55.0485	36.1542	49.7454
Andorra	(French Fr)	8.0001	5.1537	3.3848	4.6572
	(Sp Peseta)	198.735	128.025	84.0881	115.692
Angola	(Readj Kwanza)	49338.3	31784.0	20874.8	28722.2
Antigua	(E Carib $)	4.1912	2.7000	1.7733	2.4399
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	371.528	239.340	157.192	216.284
Greenland	(Danish Krone)	9.1042	5.8650	3.8520	5.3000
Grenada	(E Carib $)	4.1912	2.7000	1.7733	2.4399
Guadeloupe	(Local Fr)	8.0001	5.1537	3.3848	4.6572
Guam	(US $)	1.5523	1	[illegible]	0.9037
Guatemala	(Quetzal)	9.5080	6.1251	4.0230	5.5351
Guinea	(Fr)	1547.84	997.000	654.801	900.958
Guinea-Bissau	(Peso)	27997.3	18036.0	11845.5	16298.6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Oman	(Rial Omani)	0.5977	0.3850	0.2529	0.3479
Pakistan	(Pak. Rupee)	54.6398	35.1348	23.0765	31.7502
Panama	(Balboa)	1.5523	1	0.6568	0.9037
Papua New Guinea	(Kina)	1.9976	1.2804	0.8409	1.1571
Paraguay	(Guarani)	3159.28	2055.00	1349.67	1857.04
Peru	(New Sol)	3.7932	2.4430	1.6045	2.2077
Philippines	(Peso)	40.6470	26.1850	17.1975	23.6628
Pitcairn Is	(£ Sterling)	1	0.6442	0.4231	0.5821
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Special Drawing Rights July 11, 1996 [illegible]

MARKETS: This Week

EMERGING MARKETS By Stephen Fidler

Life still left in Latin America

If Wall Street's bull market has at last come to an end, as some pundits were predicting last week, what are the prospects south of the US border?

The question presupposes that the US bull run is over. For those who view the stock market as being largely driven by the amount of money sloshing around in the US economy, even that assumption may be premature. With the Federal Reserve still apparently undecided on whether to nudge up interest rates, the market may stagger on for a while despite last week's nervousness.

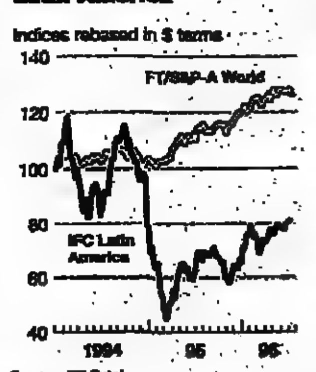
Those looking at a broader picture see further grounds for believing the US crash is not imminent. Mr Roger Nightingale, a London-based economist and equity strategist for Latinvest, the specialised Latin American brokerage, reckons Japan's relaxed monetary stance has been another critical factor in ensuring plentiful liquidity in the US.

Japanese money has been placed in US short-term markets, depressing yields and encouraging US investors to seek higher returns in other types of investment. The result has been huge retail investment in mutual funds, heavy corporate investment and US financing for "most of the infrastructure of Latin America, Asia and eastern Europe".

With the Bank of Japan, in his view, content to see stronger growth and a weak yen for now, monetary tightening in Japan may not be imminent either.

Latin America

Indices rebased in $ terms



Source: FT Extel

This would suggest there is some life left in the Latin American markets, most of which are more driven by liquidity considerations than their counterparts in Asia.

In fact, it could for a while be wonderful for investors in Latin markets. Last year's astonishing performance by US shares meant US portfolio investors were hardly inclined to venture into Latin markets, particularly given the uncertainty generated by Mexico's currency crisis.

This year, Latin America could benefit as investors switch from a lacklustre US market into more volatile, so-called high beta markets. The central question would then be for how long Latin America could decouple from New York.

To some extent, a decoupling has occurred in the bond market. The weakness of the US long bond this year has not been transmitted into Brady bonds. Mr Lincoln Rathnam of Schooner Asset Management in Boston points out that returns on J.P. Morgan's basket of Brady bonds and bank loans exceeded 15 per cent in the first half of the year, while those holding a basket of first world bonds have suffered modest negative returns.

Part of this is because "new buyers are coming into the Brady market and are paying up", he says. These new buyers are evidence of the important changes in the financial markets, as financial institutions of every stripe build up emerging market departments to cater for what in the 1990s have been the fastest growing regions of the world.

However, there is also a less positive cyclical explanation. Brady bond bears are liable to point out that the narrowing in yield differentials between weaker and stronger credits is a typical sign of the last throes of a bull market in bonds.

Yet if the end of the bull market in bonds and stocks is really in sight, how bad would the bear market be?

Mr David Hale at Zurich Kemper Investments in Chicago points out that it took a doubling of short-term US interest rates in 1994 to bring about the crash of most Latin American markets.

This time around, he says, the maximum increase in US rates is likely to be 100 basis points, but will more probably be 25 to 50 basis points.

If this implies less danger to Latin America, most Latin markets and economies are also less vulnerable than they were two years ago, he argues.

Investor expectations are much lower than in 1994, when many investors assumed Mexico "had de facto become the 13th Federal Reserve district". As a result, the large volatile positions held by US institutions in Latin American financial instruments – such as those built up in Mexican *tesobonos* – have no counterpart today.

Neither are the current account deficits of the main economies anywhere near as large as Mexico's were in 1994. Among smaller economies, only *Peru's deficit has* approached 8 per cent of gross domestic product – the level in Mexico before its currency debacle – and that now appears to be declining.

Brazil's anti-inflation plan is obviously vulnerable unless the government manages to secure constitutional amendments that will correct its structural budget deficits. But with more than $60bn in reserves, and more flexibility in policy than Mexico had, these dangers appear to be a year, and possibly two, away.

In fact, the main risks to Latin markets appear at this time to be political. Mexico's volatile political climate, for example, retains the capacity to spring nasty surprises on over-optimistic investors.

But Mr Hale reckons one serious event with big implications for the Latin markets has hardly been analysed: the US presidential and Congressional elections in November.

If President Clinton is returned with a Democratic Congress promoting protectionist policies, the fall-out for Latin America could be huge, he says.

In that case, capital flows from the US to emerging markets would slow, and the Mexican peso could slump to 10 or 11 to the dollar from around 7.65 now. Even the North American Free Trade Agreement could be at risk, says Mr Hale.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	12/7/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (431)	161.61	-4.07	-2.46	+1.56	+0.98	+14.20	+9.62
Latin America							
Argentina (22)	97.78	-8.26	-4.02	-2.26	-2.26	+6.00	+5.39
Brazil (23)	248.12	-1.30	-0.52	+31.74	+14.67	+62.03	+33.33
Chile (16)	198.70	-1.10	-0.55	+15.63	+8.54	+3.04	+1.55
Colombia (14)	165.77	-0.58	-0.35	+0.80	+0.49	+1.52	+0.93
Mexico (24)	79.13	-3.71	-4.48	-5.11	-6.06	+5.53	+7.52
Peru(13)	1,161.20	-18.58	-1.58	+142.02	+13.94	+92.25	+0.62
Latin America (112)	142.20	-3.37	-2.32	+7.58	+5.59	+19.06	+15.40
Europe							
Greece (18)	110.06	+1.37	+1.26	+3.93	+3.70	+12.09	+12.34
Portugal (20)	133.15	-0.81	-0.58	+3.65	+2.82	+16.69	+14.33
Turkey (25)	114.97	-4.57	-3.90	-7.70	-6.28	+32.17	+38.85
South Africa (30)	142.16	-5.39	-3.66	-4.40	-3.00	-11.22	-7.31
Europe (134)	122.15	-3.68	-2.92	-1.88	-1.51	+0.62	+0.51
Asia							
China (24)	44.11	-0.44	-0.98	+0.11	+0.26	+3.78	+9.58
Indonesia (31)	141.82	+1.82	+1.30	-3.45	-2.38	+3.26	+2.36
Korea (23)	111.75	-2.59	-2.27	-8.49	-7.06	-25.16	-18.38
Malaysia (23)	257.07	-1.42	-0.55	0.02	+0.01	+29.71	+13.07
Pakistan (14)	89.53	+1.70	+1.94	-3.32	-3.65	+16.04	+21.79
Philippines (14)	339.04	-13.71	-3.95	-1.84	-0.49	+73.68	+28.51
Thailand (26)	229.22	-12.89	-5.32	-10.99	-4.58	-22.67	-9.00
Taiwan (31)	172.32	-8.05	-4.47	-0.93	-0.54	+41.50	+31.72
Asia (155)	221.41	-5.36	-2.36	-4.14	-1.84	+16.37	+8.05

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

Cyber-Val deal raises tensions between banks

Last week's FFr40bn issue for Cyber-Val was always going to cause a stir in the markets. After all, the deal is the biggest bond issue by a non-government borrower anywhere in the world, and its form has underlined the increasing enthusiasm for securitisation in Europe.

However, few could have expected the controversy it provoked among French bankers, ultimately leading to three of the main participants in the market boycotting the deal.

The causes of the dispute between Crédit Lyonnais and its three competitors in the *French capital market are complex*. They range from technical considerations – different interpretations of the terms "international" and "domestic" bonds – to wider-ranging and more deeply-rooted rivalries in the French banking industry.

Crédit Lyonnais and the US investment banks Merrill Lynch and Morgan Stanley were joint lead managers of the Cyber-Val 07-96 securitisation, a four-tranche deal issued by Etablissement Public de Financement de Restructuration, a special entity established last year by law as part of a state-backed rescue package for Crédit Lyonnais.

Tensions over the Cyber-Val issue first emerged during a meeting a few days before the launch, at which all banks invited to participate were represented.

Paradoxically, Banque Paribas and Crédit Agricole, two banks that subsequently decided to join the issuing syndicate, were the first to voice their disapproval when the lead managers announced that French banks would only be offered 1 per cent (FFr400m) each, according to a banker who attended the meeting.

"We were disappointed not to have more bonds ... but the deal was interesting and we wanted to be in it," said an official at Paribas. "We finally took what we were offered."

Traditionally, French banks that participate in – but do not lead – a bond issue are allocated a percentage of the total amount that reflects their size and marketing ability.

Banque Nationale de Paris (BNP) and Société Générale usually get 7 to 10 per cent each, while Caisse des Dépôts (CDC) can expect to be allocated more than 10 per cent. These practices "have applied *since the beginning of the* French bond market", said one banker.

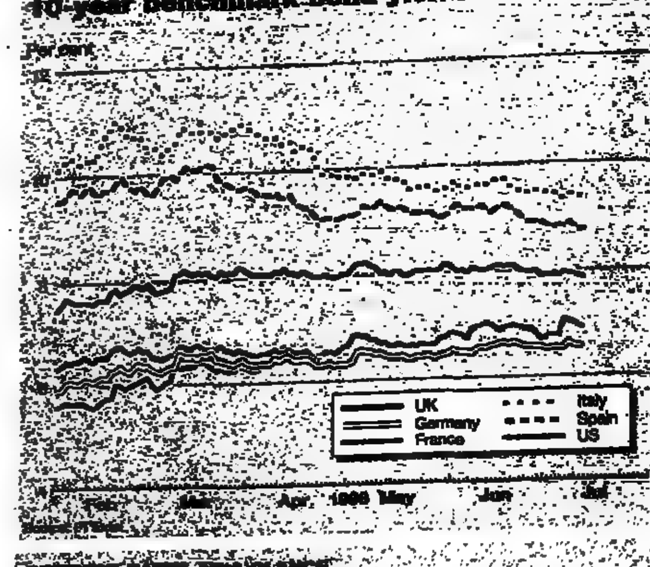
Merrill Lynch, however, pointed out that the size and structure of the deal were not compatible with existing market practice.

Mr David Tory, head of syndication at the US investment bank, insisted that Cyber-Val was not only the largest bond issue, but was twice as large as the previous record-setting deals – a securitisation by GPA and a three-tranche floating-rate note issue by the Republic of Italy.

The Cyber-Val deal is also 40 times the average size of international bond issues – about $200m. In these circumstances "the syndication strategy had to be done in a completely different way", said Mr Tory.

Mr Loïc Bonete, head of syndication at Crédit Lyonnais, also stressed the international nature of the deal – French market practices are not usually applied in the international marketplace. He said that more than 65 per cent of the fourth tranche had been sold to non-French buyers, 50 per cent of tranches 2 and 3, and 10 per cent of tranche 1.

10-year benchmark bond yields



INTEREST RATES AT A GLANCE

	US	Japan	Germany	France	Italy	UK
[illegible]	[illegible]	[illegible]	2.50	4.90	9.00	5.75
[illegible]	[illegible]	[illegible]	3.25	3.56	9.18	5.68
[illegible]	[illegible]	[illegible]	3.30	3.73	8.77	5.67
[illegible]	[illegible]	[illegible]	3.60	4.09	8.34	5.90
[illegible]	[illegible]	[illegible]	5.41	5.61	8.75	7.31
[illegible]	[illegible]	[illegible]	6.50	6.54	9.37	7.88

[illegible]

Nevertheless BNP, Société Générale and Caisse des Dépôts felt they had been treated unfairly and chose to boycott the issue.

Officials at SocGen insisted that Cyber-Val was a typical "domestic product, with a government guarantee", to which the quota system should have been applied, but was not.

Other bankers believe that the effects of last week's events are wider-ranging and could jeopardise the functioning of a market based on relations of reciprocity.

"We have continued to treat Crédit Lyonnais fairly, allocating it its traditional quota despite the fact that its placement capacity has become clearly weaker," said one banker involved in the debate.

"This was their chance to reciprocate, but they chose not to. There is no reason for us to continue inviting them into our future deals," he added.

However, Mr Bonete of Crédit Lyonnais said that he still hoped there would be no retaliation from other French banks, adding that it would be unjustified.

On Friday, a Crédit Lyonnais spokesman failed to deny claims that by limiting other institutions' participation, the troubled bank aimed to boost its revenues. "This seems logical," he said.

Mr Bonete also said that his bank had not had a sufficient allocation to satisfy clients' demands, although it is likely that each lead manager had directly sold more than FFr13bn. He added that even with 1 per cent allocations, the French banks had the chance to make substantial absolute commissions.

Both BNP and SocGen complained that they had neither been consulted on the deal nor invited to bid for it.

Mr Bonete confirmed that SocGen had not been asked to contribute, saying that it had not shown interest in advance. Morgan Stanley and Merrill Lynch, he added, were selected from a list of institutions which had "long expressed an interest" in the deal.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Republic of Austria	200	Dec 1999	6.625	99.808	6.710	[illegible]	Daiwa Europe
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-MARKS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
STERLING							
Woolwich Building Society	200	Aug 2021	8.50	98.542R	8.540	+115	[illegible]
MEPC	150	Dec 2005	8.75	98.308R	8.958	+78	UBS
National Power	250	Aug 2005	8.375	[illegible]	8.595	+52	BZW
GUILDERS							
Inter-American Dev'ment Bank	350	Aug 2006	6.625	99.365R	6.710	+14	ABN Amro Hoare Govett
R Mortgage Securities	500	Jul 2006	6.75	99.508R	6.777	+21	UBS
Cedar	3bn	Jul 2004	6.375	99.370	6.476	+13	ABN Amro Hoare Govett
LUXEMBOURG FRANCS							
Rabobank Nederland	2bn	Dec 2002	6.125	102.65	5.60	-	BGL
Cerabank Luxembourg	2bn	Nov 2001	6.125	102.75	5.59	-	BCEE/Cerabank Lux
Inter-American Dev'ment Bank	2bn	Sep 2006	(s)	102.20	6.40	-	Banque Paribas Lux
FRENCH FRANCS							
Halifax Building Society	2bn	Aug 2006	6.75	99.640R	6.799	+16	CDC
Cyber-Val 07-96, A1	[illegible]	Jul 1997	[illegible]	100.00	-	-	CL/Merrill/MS Stanley
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ITALIAN LIRE							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIAN DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU							
European Investment Bank	150	Apr 2001	[illegible]	[illegible]	[illegible]	[illegible]	Banque Paribas/CDC
PESETAS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CANADIAN DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DANISH KRONER							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEW ZEALAND DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FINNISH MARKKA							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Deutsche Morgan Grenfell

[illegible] Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jul 12		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6319	-0.026	255 - 383	16.6516	16.5985	16.6007	2.3	16.5257	2.6	-	-	105.0
Belgium	(BFr)	48.6957	-0.1222	707 - 208	48.8180	48.5730	48.6007	2.3	48.4107	2.3	47.8207	2.2	106.5
Denmark	(DKr)	9.1042	-0.0153	008 - 078	9.1138	9.0829	9.0905	1.8	9.0701	1.5	8.9983	1.6	107.5
Finland	(FM)	7.2229	-0.0096	157 - 301	7.2880	7.2000	7.2185	0.7	7.2104	0.7	-	-	83.7
France	(FFr)	8.0001	-0.0113	978 - 024	8.0091	7.9785	7.9879	1.8	7.9681	1.7	7.8717	1.6	109.1
Germany	(DM)	2.3835	-0.0038	826 - 843	2.3880	2.3585	2.3581	2.3	2.35	2.3	2.3113	2.2	108.4
Greece	(Dr)	371.528	-1.062	378 - 677	372.948	370.525	-	-	-	-	-	-	68.0
Ireland	(I£)	0.9740	-0.001	733 - 748	0.9748	0.9725	0.9735	0.6	0.9723	0.7	0.9678	0.6	98.7
Italy	(L)	2379.13	-4.51	813 - 014	2385.34	2374.84	2384.88	-2.8	2394.53	-2.8	2427.03	-2.0	78.9
Luxembourg	(LFr)	48.6957	-0.1222	707 - 208	48.8180	48.5730	48.6007	2.3	48.4107	2.3	47.8957	2.2	106.5
Netherlands	(Fl)	2.6531	-0.0049	522 - 540	2.6566	2.6482	2.647	2.8	2.635	2.7	2.5873	2.5	108.5
Norway	(NKr)	10.1001	-0.0141	931 - 071	10.1709	10.0295	10.0916	1.0	10.0746	1.0	9.9911	1.1	98.8
Portugal	(Es)	242.860	-0.314	733 - 988	242.981	242.330	243.275	-2.1	244.18	-2.2	-	-	94.8
Spain	(Pta)	198.733	-0.342	656 - 810	198.995	198.344	198.998	-1.8	199.508	-1.6	200.808	-1.1	80.5
Sweden	(SKr)	10.4121	+0.0388	028 - 218	10.4406	10.3890	10.4124	0.0	10.4125	0.0	10.4105	0.0	89.5
Switzerland	(SFr)	1.9543	-0.0017	532 - 553	1.9557	1.9484	1.9493	3.1	1.9385	3.2	1.8903	3.3	110.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.4
Ecu	-	1.2479	-0.0025	475 - 483	1.2496	1.2452	1.2486	1.3	1.2456	1.4	1.2303	1.4	-
SDR†	-	1.07812	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5502	-0.0034	497 - 506	1.5555	1.5495	-	-	-	-	-	-	-
Brazil	(R$)	1.5604	-0.0087	599 - 608	1.5636	1.5595	-	-	-	-	-	-	-
Canada	(C$)	2.1263	-0.0059	255 - 271	2.1319	2.1253	2.1256	0.4	2.122	0.6	2.1139	0.6	88.9
Mexico	(New Peso)	11.8557	-0.0306	495 - 619	11.8872	10.3161	-	-	-	-	-	-	-
USA	($)	1.5523	-0.0034	520 - 526	1.5580	1.5511	1.5519	0.3	1.5505	0.0	1.5557	-0.2	97.5
Pacific/Middle East/Africa													
Australia	(A$)	1.9471	-0.004	461 - 481	1.9805	1.9424	1.9497	-1.6	1.9547	-1.6	1.96	-1.7	94.7
Hong Kong	(HK$)	12.0141	-0.0262	114 - 168	12.0434	12.0071	12.006	0.8	11.9944	0.7	11.9746	0.5	-
India	(Rs)	54.9515	-0.1204	304 - 726	55.2850	54.6300	-	-	-	-	-	-	-
Israel	(Shk)	4.9553	-0.0057	509 - 596	4.9888	4.9344	-	-	-	-	-	-	-
Japan	(Y)	171.778	+0.266	698 - 857	171.860	170.940	171.085	5.1	169.563	5.2	160.148	5.0	132.2
Malaysia	(M$)	3.8691	-0.0062	676 - 706	3.8741	3.8653	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2574	-0.0027	558 - 590	2.2651	2.2558	2.2604	-2.7	2.2719	-2.6	2.3057	-2.1	108.5
Philippines	(Peso)	40.6470	-0.089	003 - 938	40.7050	40.6000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8221	-0.0127	206 - 236	5.8355	5.8180	-	-	-	-	-	-	-
Singapore	(S$)	2.2050	+0.002	038 - 062	2.2072	2.2009	-	-	-	-	-	-	-
South Africa	(R)	6.8534	+0.09	443 - 625	6.8674	6.7497	-	-	-	-	-	-	-
South Korea	(Won)	1263.49	-0.52	317 - 382	1265.88	1262.80	-	-	-	-	-	-	-
Taiwan	(T$)	42.7729	-0.1769	576 - 881	42.9605	42.7468	-	-	-	-	-	-	-
Thailand	(Bt)	39.4595	-0.0825	363 - 826	39.5300	39.4310	-	-	-	-	-	-	-

† Rates for Jul 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

[illegible]

pm premium.

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BASE LENDING RATES

[illegible]

BANK RETURN

[illegible]

UK GILTS PRICES

[illegible]

STOCK INDICES

[illegible]

APPOINTMENTS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

Isra

Domes
pushes
proces
A

bank leumi

Israel

Politics: cabinet is a minefield for new prime minister
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Telecommunications: innovation abounds
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Interview: Jacob Frenkel, central bank governor
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Israel's new prime minister may find his plans for radical reforms are frustrated by divisive political battles at home and upheavals in the Middle East peace process, writes Julian Ozanne

Domestic agenda pushes peace process aside

A fundamentally new course has been charted for Israel since the election last month of a Likud government under prime mininster Mr Benjamin Netanyahu. While the previous Labour-led government sought a radical transformation in the Jewish state's relations with its Arab neighbours, Mr Netanyahu has turned his attention firmly towards radical domestic reform and the economy.

The new government has moved quickly to implement far-reaching reforms designed to tackle the legacy of economic drift left by its predecessors. But Mr Netanyahu's focus on domestic reform has come at the expense of the fragile Arab-Israeli peace process, which is increasingly paralysed.

The new government's economic priorities and its refusal, so far, to offer any new ideas on how to edge forward in negotiations with Arab partners reflect Mr Netanyahu's belief that the key to a second electoral victory lies with how the average Israeli feels about his or her economic situation rather than how they feel about relations with their Arab neighbours. Under this strategy Mr Netanyahu wants to slow the peace process considerably, and will try to prevent an eruption of violence while continuing to boost the economy. By the year 2000, it is predicted Israelis will reach a per capita income of $20,000.

The prime minister also wants to abandon the principle of land-for-peace, freeze negotiations with Syria over the Golan Heights and force Palestinians to accept limited autonomy without handing over any more of the land it still occupies.

He believes this tough position will force Arabs to compromise further on their rights and leave him in a position to argue, when seeking a second term in 2000, that, unlike the Labour party, he took no gambles with Israeli security, a campaign theme which won him many votes in May's election.

This is a strategy fraught with danger and it shows the extent to which Mr Netanyahu and his aides fundamentally misunderstand the Arab world. The proposition that Arabs will suddenly abandon their long struggle for the recovery of occupied land is, at best, naive and at worst provocative. Furthermore, the architecture of the Israeli-Palestinian peace process is founded on incremental momentum towards a Palestinian state. Paralysis is a recipe for disintegration.

However, for all the growing language of confrontation, Mr Yasser Arafat, president of the Palestinian Authority, and Syrian President Hafez al-Assad will not decide lightly on a return to violence and conflict. A new intifada, or Palestinian uprising, could destroy the little that Mr Arafat's embryonic state has achieved so far. More importantly, he could risk losing his autocratic grip to extremists who would argue that he has failed to win the independent state he promised.

Mr Netanyahu will come under considerable pressure from Europe and the US to soften his stance towards the Palestinians. After November's elections in the US – which provides Israel with $3bn of economic and military aid and $2bn of loan guarantees a year – such pressure will considerably intensify and reluctance by Mr Netanyabu's to bend could put Israel at risk of being sent back to diplomatic isolation.

Within the narrow confines set by Mr Netanyahu – and if he is willing to soften somewhat his hardline position – it is possible to imagine the peace process staggering on over the next four years, moving from crisis to crisis without completely breaking down.

However, as has been so amply demonstrated in the past three years, developments will be influenced by attacks both from Palestinian extremists and Pro-Iranian guerrillas in southern Lebanon. Sadly, the election of a government committed to abandoning land-for-peace negotiations will only bolster the hands of extremists.

Four years is a long time, however, and Mr Netanyahu has said the world should expect "surprises" and "breakthroughs" in the peace process. Although its difficult to see how these unlikely promises will come to fruition, he constantly recalls that it was former prime minister Menachem Begin, then leader of Mr Netanyahu's right-wing Likud party, which made the historic peace agreement with Egypt in

> Jewish religious fundamentalists have more power in government than ever before

1979. In the meantime, Mr Netanyahu knows he has a grace period and he has grabbed the opportunity to begin creating the kind of economic 'feel-good' factor he thinks will win him the election in 2000. By then, Israel's GDP, forecast this year at $95bn, will exceed $125bn, taking it into a grouping of countries which includes Portugal, Poland and South Africa. Per capita income, forecast at more than $17,000 this year, will rise to more than $20,000, giving Israelis a standard of living comparable to many Europeans.

"I would like to see Israel moving very rapidly from its position as a dependent nation to economic independence and become a significant economic power in the world by its own right and not only in per capita terms," Mr Netanyahu told the FT in an interview earlier this month. "I think that is perfectly possible. We are probably the only advanced economy in the world that can move into the post-industrial information age without having really gone through the phase of being an industrial power. And that, paradoxically, is not a disadvantage. It's a huge advantage because we do not carry the baggage of obsolescent industries."

Much of Israel's growth in the coming years will be based on its developing high-tech sector, widely acknowledged as a competitor to California's Silicon Valley, particularly in telecommunications equipment. By 1997 some 100 Israeli high-tech companies will be listed on Wall Street, making Israel second only to Canada in foreign stocks traded in New York.

But first the government must tackle the economic legacy of the previous government. Fiscal indiscipline in times of high growth and low unemployment have created widening budget and current account deficits and high inflation, currently running at 14-15 per cent on an annualised basis.

With remarkable speed, Israel's new economic team consisting of the prime minister, Mr Jacob Frenkel, the central bank governor and Mr Dan Meridor, the finance minister have forced through expenditure cuts of Shk4.9bn to the 1997 budget. The cabinet has also adopted a stringent new multi-year budget deficit reduction plan. It should help narrow the current account deficit from an estimated $4-4.5bn this year to a forecast $1.5bn by 2000, reduce inflation and allow the central bank, possibly later this year, to lower its key lending rate from 17 per cent, with positive implications for Israel's stock market.

Growth, which has averaged 6 per cent for the past six years, is predicted by the Treasury to slow to 4.3 per cent in 1997 and recover to 5.2 per cent

Continued on the back page of this survey

The economy • By Julian Ozanne

On course for a soft landing

While cutting the budget deficit is the central problem facing an overheated economy, reforms are likely to make Israel more attractive to investors

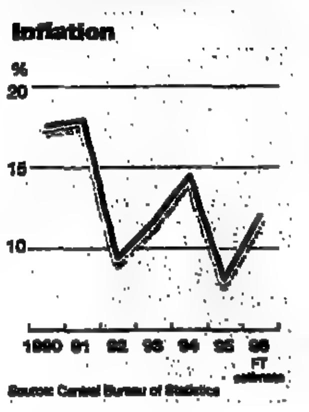
Barring any significant explosion in the fragile peace process, Israel's rapidly growing economy should be on course for a soft landing in the next 18 months as the new government moves swiftly to step up the battle against inflation and widening budget and current account deficits.

Within days of being sworn into office, the new government voted a substantial expenditure cut from the 1997 budget, a public sector hiring freeze and a new four-year budget deficit reduction programme.

The radical measures mark an early recognition by Mr Benjamin Netanyahu, the prime minister, that cutting the budget deficit is the central problem facing the overheated economy.

Israel's economy grew an average 6 per cent a year in the past six years. The fast growth was fuelled mostly by the influx of immigrants from the former Soviet Union and rising exports to traditional and non-traditional markets. Some economic benefits accrued from new investment and increased tourism from unfolding Middle East peace. But the government has been constantly battling against inflation which reached 14.5 per cent in 1994, fell to 8.1 per cent in 1995 and is currently about 15 per cent on an annualised basis.

While small by western standards, Israel's overall 1995 budget deficit of Shk10.4bn, or 3.9 per cent of GDP, is widely credited with having fuelled inflation and a widening current account deficit at a time of rapid growth and low unemployment. The current account deficit rose to $4bn in 1995, or 4.7 per cent of GDP, from $2.5bn or 3.3 per cent of GDP in 1994 as high growth of 7.1 per cent stimulated an import boom. Unemployment fell last year to a six-year low of 6.3 per cent.



Much of the economic drift in the past 18 months was caused by unwillingness on the part of the previous Labour government to tackle the rising budget deficit in the run-up to May's general elections. Last year the government blew its domestic budget deficit reduction target of 2.75 per cent and continued to overspend in the first five months of this year by Shk3bn on an annualised basis. The battle against inflation was left to an increasingly frustrated central bank which applied the monetary brakes without much long-term impact.

The new government, faced with the prospect of a stalemate peace process, has been determined to address these problems quickly and decisively and establish its credentials as the most radical reformer and deregulator of an economy still dominated by big government and bureaucracy.

First, Mr Netanyahu created an economic team committed to his vision of shrinking the role of government in the economy, privatisation and deregulation. Mr Jacob Frenkel, a tough inflation fighter, was reappointed for another five years as governor of the central bank and asked to head a council of economic advisers, in effect making him the key figure in future economic policy. Mr Dan Meridor, a moderate, was appointed finance minister.

Then Mr Netanyahu held a series of meetings focused on the economy which culminated in a cabinet decision to reduce next year's expenditure by Shk4.9bn with the heaviest cuts falling on defence, health, education and investment subsidies.

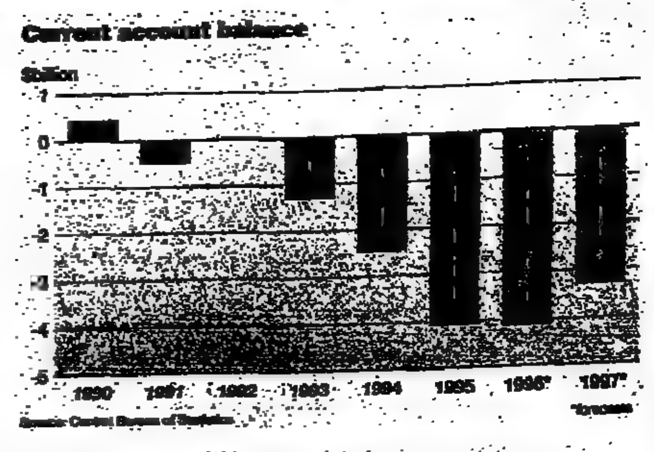
The government also announced a new four-year budget deficit reduction programme which aims to cut the overall fiscal deficit from 3.9 per cent of GDP last year to 1.5 per cent of GDP by the year 2001. Last week the cabinet also approved a surprise Shk350m cut from the 1996 budget – an across the board 2 per cent cut in all the ministries.

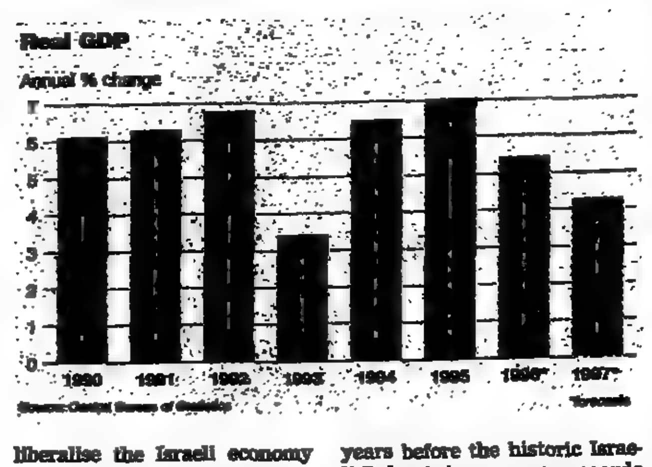
Taken together, the measures should dampen inflationary pressures, reduce the current account deficit and allow the central bank slowly to reduce its key lending rate, currently standing at 17 per cent, over the next 18 months. Falling interest rates will allow the shekel to depreciate, helping exporters. And if the government sticks to a programme of expenditure cuts there are some prospects for a reduction

> The new measures should dampen inflationary pressures

in Israel's heavy tax burden. Growth, predicted at 5 per cent this year, should slow further next year to about 4 per cent, allowing the economy to make a soft landing. A period of consolidation should also help Israel to increase productivity.

Mr Netanyahu has been quick to trumpet the early economic achievements of his government and his commitment to far-reaching privatisation and liberalisation. In an interview with the FT earlier this month he said: "This is the first time in the history of Israel there is a coherent economic leadership at the head of the country, where the prime minister, finance minister and governor of the central bank all share a common vision to liberalise the Israeli economy and move forward into the next century as one of the great technological and entrepreneurial successes of any country in the world."





But the ability of Israel to make a controlled slowdown after six years of rapid growth may be influenced by developments in Middle East peace-making. There is considerable debate in Israel about the exact benefits that have accrued to Israel from the peace process.

Those economists that minimise the economic impact of the peace process point to the strong growth in the three years before the historic Israeli-Palestinian peace accords were signed in September 1993, largely as a result of the large wave of immigration from the former Soviet Union which began in 1989. They also say many of Israel's new markets, such as eastern Europe and Asian countries including India, Burma and Vietnam are not going to close their doors if the process collapses. Furthermore, some important sectors of the economy, such as export-oriented high tech, are insulated from Israel's foreign relations so that only in 1995 did Israel really see investment dividends when foreign investment more than doubled to $2.2bn. In this analysis, whatever happens in the peace process, Israel will continue to grow and its rate of growth will be overwhelmingly determined by domestic policy.

However, even those who downplay the economic impact of the peace process concede that increased conflict with Israel's Arab neighbours and a perception of instability will immediately affect tourism receipts, foreign investment and Israel's external sovereign credit rating. Falling credit ratings will considerably affect Israel's ability to raise sovereign debt abroad, increasingly important as the US loan guarantees worth $10bn over five years run out in 1998.

There are also those that paint a pessimistic scenario of Israel returning to war with potentially devastating effects on the economy.

The probable economic future of Israel lies somewhere in the middle. The most likely prospect for the peace process is a long period of stagnation. Economic reforms will continue to make Israel more attractive to investors and the economy will expand but many foreign and local investors will put their plans 'on hold' and the promise of peace dividends will be delayed.

"Foreign investment is still a very small part of our economy," said Mr David Brodet, finance ministry director-general. "There could be some hesitation by investors in new projects and maybe some effect on our external debt issues but in the very worst case scenario growth cannot slow to less than 4 per cent in the next two years.

Interview with Jacob Frenkel: see report, page 5

Privatisation • By Avi Machlis

Assets that will not move

Ministers will find that a speeded up sale of state assets will be easier said than done

Upon assuming office last month, Mr Benjamin Netanyahu, the prime minister, pledged comprehensive privatisation of Israel's state-owned companies and banks as a keynote of his economic programme.

He even seized privatisation powers from the Treasury and took control of the process, saying that its success in other countries had depended on a strong push from the prime minister. But he may soon discover that reviving Israel's sluggish privatisation programme is no easy task.

Although Israeli governments since the mid 1980s have talked about privatisation, implementation has been limited. Weak government efforts exacerbated by political pressures, faltering capital markets and assorted problems plaguing particular companies, have left most of the biggest companies and banks slated for privatisation in government hands.

Since 1986 Israel has raised only $2bn of an anticipated $5bn from selling state-owned companies, while bank share sales generated just $1.5bn of a potential $4.5bn of income needed to reduce public debt.

Meanwhile, the state maintains at least a partial stake in more than 150 companies ranging from transport to tourism, with sales accounting for about 18 per cent of GDP.

Despite a master plan adopted by the government in 1988, the process got off to a weak start in the late 1980s. A record 1993 marked by $1.24bn in total proceeds was followed by a disappointing 1994 when only $207.5m was raised against the backdrop of a stock market crisis.

High hopes, raised by an impressive $533m in privatisation revenues at the start of 1995, soon fell again. Triggering the brief surge last year was a direct sale for Shk720m in February 1995 of a 25 per cent chunk of Israel Chemicals (ICL), the largest chemical manufacturer and a leading exporter, reducing the government's stake to 48.5 per cent.

However the cancellation of a proposed float of another 25 per cent of ICL's equity on Wall Street later that year set the tone. No more big sales took place in 1995 and only $182m has been raised so far in 1996 from two insignificant company transactions and sale of 16 per cent of Israel Discount Bank for $160m.

"To the present," says Mr David Levhari, economics professor at Hebrew University in Jerusalem, "privatisation has been slow relative to Israel's ability."

Most of the blame, he says, lies with the government which prefers strategic partners to selling through the market, claiming it is not sufficiently large or liquid.

The finance ministry, however, blames the poor record in the past five years on worker objections, obstruction from some ministers and management and the need to create a new regulatory framework.

"Because Israel is a relatively concentrated economy," says Mr David Brodet, director-general of Israel's finance ministry, "we paid a lot of attention not to shift any public monopoly to a private monopoly without clear regulation. We say competition [comes] before privatisation and regulation before privatisation."

Difficulties

Despite some successes, including the complete sale of three large companies – Shekem, a retail chain, and two housing and construction companies – the most difficult deals remain. At the core of the list are some of the largest companies and banks, including Bezeq, the state telecommunications company, El Al, the national airline, the Israel Electric Company and the two largest banking groups, Bank Hapoalim and Bank Leumi.

Mr Brodet says these companies have been the most difficult to privatise because of the challenge of creating a regulatory environment. The government had to pass new legislation about access to national natural resources and completely open up the telecommunications sector to competition.

But even after telecommunications liberalisation other problems have prevented privatisation of Bezeq. Last year, with 25 per cent of its equity trading locally, a planned international offering of another 24 per cent was postponed after Britain's Cable and Wireless purchased a 10 per stake in Bezeq off the Tel Aviv stock exchange.

Fearing Cable and Wireless would gobble up another shares flotation and prevent it from bidding for a strategic partner, the Treasury froze the process while negotiating with Cable and Wireless.

In March, Mr Rafi Harlev, El Al's director-general, was forced to resign because of the failure to sell El Al due to undervaluation and pressure from religious groups to maintain a ban on flights on Saturdays, the Jewish sabbath.

Privatisation of the Israel Electric Company faces stiff opposition from a powerful union bent on maintaining the company's monopoly.

"Every company has its own story," says Mr Ezer Soref, vice president of Giza Group, an investment banking concern that has participated in the privatisation process.

Meanwhile, two contenders for a 20 to 40 per cent controlling stake in Bank Hapoalim, Israel's largest banking group, await central bank approval. Further complications were sweeping banking reforms approved by the government last December, obliging the banks substantially to reduce their non-financial holdings over the next few years. The only bidder for 20 per cent of Bank Leumi, Israel's second largest bank, pulled out in early 1995. Weak capital markets have also hampered privatisation in recent years, and provided the government with an excuse to delay planned sell-offs. "This is something which they must overcome," says Mr Levhari. "They must sell more vigorously, even if companies are undervalued."

Some analysts say the only way to revitalise the programme and local interest in the tired market is through the finance ministry's "options plan", in which options to buy shares in government-owned companies and banks at discounted prices would be distributed free to the public.

Although shelved at the start of the election season in case it was seen as an attempt to buy votes, the plan could be reintroduced by the government.

Whatever measures are taken, the Netanyahu government will soon find itself up against forces which consistently defeat the efforts of even the most enthusiastic privatisation proponents in Israel.

"I think we will see an attempt to increase privatisation efforts," says Mr Soref, "but factors that slowed privatisation in the past will not change. Whether it's Labour or Likud in power, it's a tough thing to do."

Politics: • By Julian Ozanne

Cabinet is a minefield for new prime minister

Mr Netanyahu's biggest challenge will be to manage his unruly team

If the early days of Mr Benjamin Netanyahu's premiership are a guide to the future, Israel's youngest and most inexperienced prime minister is in for a rough ride.

May's electoral results slashed the parliamentary standing of his own right-wing Likud party and forced him into coalition with parties representing religious fundamentalists, new immigrants and hard line ultra-nationalists.

In the negotiations on forming his government the 46-year-old Mr Netanyahu was often buffeted back and forth, forced to make humiliating climb-downs in the face of tantrums and threats by his coalition partners and senior members of his own party.

He had to accept a government far from his own choosing, which fell short of his stated determination to pick a cabinet of excellence. The allocation of many portfolios such as housing, justice and religious affairs, were dictated by rabbis who played a critical role in Mr Netanyahu's victory. Other top cabinet jobs were decided by power plays carried out by senior disgruntled members of the Likud party determined to unite together to clip Mr Netanyahu's presidential ambitions.

Nothing revealed Mr Netanyahu's indecisiveness and poor judgment more than his bungling efforts to award the finance ministry to Mr Jacob Frenkel, central bank governor, and his manoeuvres to keep Mr Ariel Sharon, the hawkish former general, and other potential Likud rivals out of senior cabinet posts. On both counts he was defeated as "Likud princes" ganged up against him to stake their claim to the fruits of electoral victory and maintain their position for a possible leadership challenge in the future.

The result is that he is left with a cabinet in which he has few close political allies and many members of the government owe greater loyalty either to their narrow constituencies or to other ministers than to the prime minister. Furthermore, there will be considerable potential for internal conflict in the government, particularly over the Middle East peace process. Some ministers who are in position by virtue of their parliamentary clout – such as Mr David Levy, the foreign minister, and Mr Natan Sharansky, the trade and industry minister – will feel publicly free to express views that run counter to Mr Netanyahu's.

However, the setback suffered by Mr Netanyahu is likely to be merely the first round in an internal battle for power. The first Israeli prime minister to be directly elected, he cannot be deposed from office without fresh elections. His direct electoral mandate gives him the opportunity to wield unprecedented powers. Firstly, he is guaranteed a fairly stable parliamentary majority and can whip his coalition partners into line with the threat of forming a national unity government with the Labour party. Second, he will have much more freedom to reshuffle his ministers.

He is extremely conscious of his own powers and is determined to be more than a first among equals in the cabinet. Deeply influenced by the US presidential system of government, he is starting to construct an all-powerful office of the prime minister, staffed with loyal and professional advisers such as Mr Avigdor Lieberman, his director-general, who has already begun acting like a White House chief of staff and who played a key role in Mr Netanyahu's disastrous attempts to settle scores with Likud rivals.

Mr Netanyahu has devised a number of ways to try to circumvent his cabinet in policy making. He is setting up a US-style National Security Council, a professional and independent body to assist him in the formation of defence, security and foreign policy. The NSC will be headed by Mr David Ivry, the former long-serving director-general of the defence ministry, and will be a counter-weight to the power of the army chief of staff, the defence ministry and the foreign ministry.

> Netanyahu has few close political allies in the cabinet

The appointment of Mr Frenkel as central bank governor (*see page 5*), plus plans to take control of the privatisation process from the finance ministry indicate Mr Netanyahu's belief that his government has considerable opportunity to carry out sweeping reforms of Israel's economy, distribute more widely the fruits of recent rapid growth and create a strong feel-good factor by the time of the next elections in the year 2000.

But the young prime minister's drive for presidential powers and his early opening of the campaign for a second term is likely to provoke considerable discontent within his government.

Ever since Mr Netanyahu emerged as leader of the Likud in bruising internal party primaries in 1993 there has been widespread unhappiness with his leadership from several of the "Likud princes" including Mr Dan Meridor, finance minister, Mr Sharon and Mr Benny Begin, science minister (and son of former prime minister Menachem Begin).

Indeed, several times in the past three years it seemed like the princes were set on toppling Mr Netanyahu. Mr Levy went further, leaving the Likud to form his own political party, although he was persuaded earlier this year to rejoin Likud and support Mr Netanyahu's bid for the premiership.

But old rivalries are bound to come back, especially as Mr Netanyahu attempts to marginalise his senior party colleagues in the cabinet. Already, it is clear that the dovish Mr Levy is prepared to take a very different policy stance from Mr Netanyahu on peace talks with Syria, exposing the government's internal policy rifts.

With the parliamentary opposition so weakened, the greatest threat to the government will come from within and not from without. The stage is set for a series of debilitating power struggles and squabbles which will sorely test Mr Netanyahu's ability to step through the political minefield of his fragmented coalition.

Israel government list: see page 8

The holy city, sacred to Judaism, Christianity and Islam. Above, Jews at the western wall, part of the Second Temple of Jerusalem, destroyed by the Romans in AD70. Behind is the Muslim Dome of the Rock

■ **Jerusalem** • By David Gardner

Kernel of the conflict

The future of the thrice holy city is the rock on which peace will be saved or dashed to pieces

In the swirl and ebb of Middle Eastern conflict and negotiation, there is no single issue more capable of inflaming Arab-Israeli passions than the contested status of Jerusalem.

Israel, which conquered Arab east Jerusalem in the 1967 six-day war, regards the holy city as the eternal and indivisible capital of the Jewish state. The Palestinians are determined that east Jerusalem, *Al-Quds*, will be the capital of the independent state they believe is their right.

The Palestinians are not alone among Arabs and Moslems in the importance they attach to Jerusalem. It is from Temple Mount, the third holiest place in Islam, that the Prophet Mohammed is believed to have ascended to heaven. The Dome of the Rock, built on that site, is the earliest surviving mosque.

In May last year, the issue of Jerusalem enabled the Arab League to overcome the bitter divisions caused by Iraq's 1990 invasion of Kuwait and call its first summit for five years. The catalyst was the then Israeli government's expropriation of 131 acres of Arab land in occupied east Jerusalem, on which it planned to build Jewish homes. In the event, the decree was revoked, and the summit was cancelled.

But Jerusalem came to the fore again at last month's Arab summit in Cairo, called to tell the new hardline Likud-led coalition of Mr Benjamin Netanyahu that if it persists in its intention to hold on to conquered Arab land there will be no peace in the Middle East. The summit said the "essence and core" of the Middle East peace process required a Palestinian state in the West Bank and Gaza with Arab Jerusalem as its capital.

Shortly after Israel annexed east Jerusalem, the state's founding father, *David Ben-Gurion*, initially wanted to demolish the Ottoman-built walls ringing the old city, in order to expunge its Islamic heritage. Successive Israeli governments subsequently did something less dramatic, but much more effective. They have used housing policy and other forms of discrimination against the Arabs to create a Jewish majority in the eastern quarter. Mr Ariel Sharon, the extreme right-wing former general who as housing minister under the last Likud government spearheaded the drive to build Jewish settlements on Arab land, has spelt out explicitly what his policy was.

Settlements

The problem, he said in a newspaper article in May last year, was "how to bring Jerusalem to have a Jewish majority for ever". The solution was to expropriate land from Arabs, and to encircle east Jerusalem with four big clusters of Jewish settlements, looming from the hills like Crusader castles, and thereby create "the environment" of Greater Jerusalem to hold "at least 1m Jews". He boasted that "in Jerusalem we built and created facts that can no longer be changed. We did it openly."

No countries except *Zaire*, Costa Rica and *El Salvador* recognise any part of Jerusalem as Israel's capital. But in the US, both houses of Congress last year voted to move the US embassy from Tel Aviv to Jerusalem by 1999, a move which has encouraged Israel to pre-empt "final status" negotiations with the Palestinians. These talks, which started in May and are due to conclude in May 1999, are meant to move on from interim Palestinian self-rule in Gaza and most of the West Bank to a permanent solution, covering statehood, borders, Jerusalem, the Jewish settlements, and the right of return for more than 4m Palestinian refugees.

Mr Netanyahu has said he will not honour Israel's international commitment to discuss Jerusalem, as envisaged in the 1993 Oslo accords with the Palestine Liberation Organisation (PLO). While it is too early to judge exactly what the new government will do, the early signs are ominous. The housing ministry, with rights to expand Jewish settlement on Arab land and expropriate within the eastern quarter, was the most sought after portfolio in the bargaining that led to the formation of Mr Netanyahu's coalition. In the event, Mr Sharon only narrowly missed this post, but the government declared in its programme that it intends to consolidate the Greater Jerusalem project and put east Jerusalem for ever beyond Palestinian grasp.

Mainstream Arab opinion fears that on this basis Jerusalem could be the tinder-box which reignites conflict with the Israelis. Mr Mohammed Hassanein Heikal, the leading Egyptian commentator, warns that Arab and Moslem passions about the city are dangerously underestimated in the West. "The problem of Jerusalem could be the trigger for a Middle East in turmoil," he says, "the springboard for a new series of revolutions in the Arab world."

"No one can play with Jerusalem without boxing the Arabs in," warned a senior Egyptian official at the Cairo summit. Mr Walid Khalidi, the distinguished Palestinian scholar and Harvard professor, argues in a recent pamphlet* that "it is precisely because of the microcosmic significance of Jerusalem in the larger conflict that we seek in it the potential healing power of historical reconciliation".

Viewpoints

But most of Mr Netanyahu's aides believe the issue is simply not up for discussion. Their Palestinian negotiating partners, warns Mr Ahmed Qorei (Abu Ala), one of the architects of Oslo, "won't accept one centimetre less of [Arab] Jerusalem". The Israelis had to "recognise the principle that Jerusalem is occupied, that the settlements are on our land. Then we can go to modalities and details," he says.

Mr Zalman Shoval, Israeli ambassador to the US under the last Likud government and an adviser to Mr Netanyahu, hints at one possible modality, namely a "religious solution" with "*one or more Arab parties* as trustees of the Moslem holy places". The "trustees" alluded to are the three Arab kings: Hussein of Jordan, Fahd of Saudi Arabia, and Hassan of Morocco. *But as a* "solution" it could seriously compromise their legitimacy.

The al-Saud ruling family in Saudi Arabia bases its legitimacy on the custodianship of Mecca and *Medina, the* two holiest places in Islam, and senior Saudi officials make clear it could never collude in a contested arrangement over the third holy site.

Religious oversight *of Jerusalem* is mentioned in Jordan's 1994 peace treaty with Israel, but King Hussein, whose subjects are two-thirds Palestinian, would be playing with fire if he overrode PLO chairman Yassir Arafat over Jerusalem. King Hassan, who like King Hussein claims descent from the Prophet and like him was a pioneer in building bridges with Israel, is equally unlikely to risk controversy over the site of his forbear's ascent to heaven.

"Neither Hussein nor Fahd can accept some sort of Vatican solution," says Mr Heikal: "only Arafat could surrender Jerusalem." But it is hard to believe Mr Arafat, the great survivor, could do this and survive, however obdurate the Israelis become.

He and they could do worse than remember Saladin's letter to Richard the Lionheart, shortly before the Crusader leader's departure from Palestine: "Jerusalem is our heritage as much as it is yours. It was from Jerusalem that our Prophet ascended to heaven and it is in Jerusalem that the angels assemble. Do not imagine that we can ever abandon it. Nor can we possibly renounce our rights to it as a Moslem community."

**Islam, the West and Jerusalem; by Walid Khalidi, 1996. Hood Books, 46, Clabon Mews, London SW1X 0EH.*

■ **Peace negotiations** • By David Gardner

Bluff and counter-bluff

The Netanyahu government has rewritten the script but the political geography remains the same

Netanyahu says the pursuit of peace will be subordinate to Israel's security. Above, after years of war, Israeli and Jordanian soldiers shook hands last year at the Wadi Araba border crossing Reuter

Israel's historic "peace" elections on May 29 demonstrated that a clear majority of Israeli Jews feel more comfortable with the return to the garrison state advocated by Mr Benjamin Netanyahu and his right-wing allies than with the stuttering Middle East peace process, punctuated by Islamic fundamentalist terror attacks, articulated by Mr Shimon Peres, his defeated Labour opponent.

Mr Netanyahu says the pursuit of peace will be subordinate to Israel's security. This means, as the new coalition spelt out in its government programme, that he intends to keep most conquered Arab land as a buffer against possible attack by the Arab countries surrounding the Jewish state. Mr Peres's premise was that Israel could only be secure if it made peace, which required the return of occupied land and co-operation with the Arabs on regional economic development, which he and they see as the best antidote against Islamist extremism threatening the entire region.

Ostensibly, Mr Netanyahu has torn up the land-for-peace formula which has powered all advances towards detente in the Middle East. This was the basis for the 1979 peace treaty with Egypt (reached under a Likud government), the 1994 peace treaty with Jordan, the 1993 Oslo accords with the Palestine Liberation Organisation (PLO), and three hard but fruitless years of negotiations with Syria over the Golan Heights, captured from Syria in the 1967 Arab-Israeli war.

The land-for-peace principle also underpins UN Security Council Resolutions 242, 338 and 425, requiring Israel to return Arab land conquered in 1967, and in the latter case, to withdraw from its self-proclaimed "Security Zone" in southern Lebanon. The principle is also endorsed by the US, Russia and the European Union, the sponsors of the peace process.

Needless to say, it is also a non-negotiable principle for the Arabs, who at their summit in Cairo last *month said* that rapprochement with Israel depends upon the return of all Arab land. Without this, they warned, links with Israel forged by the peace process will be reconsidered, and a relapse into violence is inevitable. So what will Mr Netanyahu actually do? His chief foreign policy adviser, Mr Dore Gold, says "we will have to give and take, but only on the issues we want to have give and take on".

Formally, the government:

- rules out a Palestinian state, offering merely to respect the "interim" Oslo agreements on Palestinian self-government in the West Bank;
- rules out the return of occupied Arab east Jerusalem, claimed by the Palestinians as their capital;
- rules out the "right of return" of more than 4m Palestinian refugees "to any part of the Land of Israel west of the Jordan River", which means, *inter alia*, that the Palestinian West Bank will stay under Israeli sovereignty;
- rules out the return of the Golan to Syria;
- says it will expand Jewish settlements on Arab land, and keep the water resources of the Golan and West Bank.

There is not much room for give and take in any of this. But, just as Mr Peres would have had to do, Mr Netanyahu will have to deal with what Israelis like to call "facts on the ground".

Chief among these "facts" are what has been achieved so far with the PLO under the Oslo Accords. PLO leader Yassir Arafat's Palestinian Authority now has democratic legitimacy, after voters in January elected a legislature, and confirmed him in office. The first two stages of Oslo have given the Palestinians control of Gaza and the main cities of the West Bank, a 15,000-strong police force, and nine security services upon which Israel's security services depend to foil the suicide-bombers of Hamas the Palestinian Islamist radicals.

Mr Netanyahu has acknowledged the "facts" so far on Oslo, saying he will honour existing arrangements provided the Palestinians do the same.

"Our approach is reciprocity," says Mr Gold. "Our approach is doing business, but for us, security is paramount." Although Mr Netanyahu said he would not deal with Mr Arafat – reviled by the Likud as a terrorist – Mr Gold opened contact with the PLO leader at the end of last month.

Each side has its list of unfulfilled pledges: on the Israeli side, "security, security, and security" to quote Mr Netanyahu; on the Palestinian side, 49 agreements still not complied with, including the two-year delay in releasing more than 4,000 prisoners, guaranteed safe passage between Gaza and the Palestinian self-rule enclaves of the West Bank, and Israeli withdrawal from Hebron, where 120,000 Arabs still live under occupation because of 400 Jewish settlers around the tomb of Abraham, a prophet equally revered by Islam and Judaism.

This unfinished business is explosive, and the immediate flashpoint is Hebron, from where Hamas has launched most of its bombings, undeterred by Israeli security. But

Continued on next page

■ Banking • By Yaroslav Trofimov

First of the lean years?

After the golden years, the banks are in for a period of discipline and retrenchment

The recent years have been unusually kind to Israel's banks, whose profits more than doubled despite shrinking interest margins. This honeymoon, however, may be coming to an end as banks have to face painful structural changes caused by legislative reform, privatisation and increased competition.

Though low by American standards, Israel's banking sector's return on equity, adjusted for inflation, averaged a respectable 8.3 per cent in 1992-1995 – compared with less than 3.1 per cent in 1988-1991.

"The growth has been high, especially considering that Israel is not a typical emerging market country like, say, Mexico. Everyone over here has several bank accounts, and it is probably an over-banked economy," said Mr David Rosenberg, director of research at the Pacific-Mediterranean Investments brokerage house.

The secret of this success, especially when it comes to the two largest Israeli banks, Bank Hapoalim and Bank Leumi, lies in the fact that, during the current economic boom, the banks could compensate for small net interest margins – currently fluctuating around a mere 2.3 per cent – by deriving income from non-banking activities, such as holdings of real companies and stock exchange brokerage fees.

The big challenge now is legislation which aims to strip the banks of these lucrative profit sources. A law passed early this year demands that banks divest of key non-financial assets, while another bill in the parliamentary pipeline would curb the banks' overpowering role on the capital market.

"The issue is whether the banks will be able to use the proceeds [from selling non-banking holdings] to keep their sources of profit at least at current levels. The banks' challenge of the future is to look for unconventional sources of income . . .and to cope with risks that they were not required to face before," said Mr David Ruthenberg, central bank Assistant Supervisor of Banks.

The stated goal of Israel's banking reform is to increase competition in the sector, where the five main banks control over 90 per cent of the credit market, some 85 per cent of mutual funds (in dollar terms) and some 90 per cent of provident funds.

The three largest banks, Bank Hapoalim, Bank Leumi and Israel Discount Bank, which control over 75 per cent of the deposits and the credit market, are owned by the state as a result of the 1983 bank shares collapse. The First International Bank of Israel is held by the Brazilian Safra family, owners of the Republic National Bank of New York. As a result of the January 1995 privatisation, a controlling stake in the United Mizrahi Bank is held by the Ofer-Wertheim-Feinberg consortium.

The centre-piece of new Israeli banking legislation is the so-called Brodet reform, (*named after David Brodet*, director-general of the finance ministry). It requires the banks to limit their non-financial holdings in Israel to 20 per cent of the total capital and prohibits them to own more that 20 per cent of any real company by the year 2000.

> The aim of banking reform is to increase competition in the sector

The main casualty of these changes will be Bank Hapoalim, which emerged in 1995 as Israel's most profitable bank, with an inflation-adjusted return on equity of 10.9 per cent. Its $43.3bn assets include significant holdings in the Koor and Clal conglomerates and the Delek fuel company.

According to the bank's joint managing director, Mr Shimon Ravid, Bank Hapoalim may use the proceeds from selling some of these holdings to expand banking activities abroad, possibly even by acquiring foreign banks. "If we don't want to be a small bank – and we don't – we'll have to look outside Israel to do more business than before. We'll have to find an outlet for our capital," Mr Ravid said.

Bank Leumi's total non-financial holdings do not exceed the 20 per cent quota, but the bank's assets are over $35.9bn and it would still have to spin off the highly profitable companies that it controls, such as the Africa-Israel Investments and Migdal Insurance.

Israel Discount Bank, The United Mizrahi Bank and the FIBI are largely unaffected by the Brodet legislation. However, according to Mr Ravid, a likely outcome of the Brodet reform will be that the three banks without non-financial assets will feel the urge to make use of their quota and buy some of the holdings spun off by Bank Leumi and Bank Hapoalim. While the three largest Israeli banks are considering how to spin off their holdings, they themselves are on the block.

The closest to being actually sold is Bank Hapoalim. The Bank of Israel, which wants a controlling stake in big banks to be purchased by approved and politically acceptable investors, has already given a go-ahead to the bidding consortium that embraces the Claridge Group, the American-Israeli billionaire Ted Arison, the Goldman Sachs investment bank and George Soros.

According to Mr Itay Makov, *Israeli banks* analyst at *Salomon* Brothers, which recently rated Bank Hapoalim as a "buy", the sale is likely to be finalised "within a month or two". The sale of Bank Leumi has fallen through after the only bidders, the Safra family, were disqualified because they *already own another large* Israeli bank, the FIBI. The privatisation of Israel Discount Bank is still at an embryonic stage.

Post-privatisation, the three big banks are bound to go through a period of internal restructuring involving cost cutting measures.

A potentially dangerous new source of competition with the Israeli banks comes from abroad. The recent currency liberalisation decrees have allowed Israeli companies to take out forex loans from foreign banks – a practice that was extremely popular last year, when the shekel to dollar exchange rate remained stable while domestic inflation increased.

However, analysts say, despite the opening up of the sector to international competition, it is unlikely that a big foreign bank will actually move into Israel to set up commercial branches. "The Israeli banks diversify their activities in such a way that it leaves almost no room for foreign banks to enter the system," said Mr Ruthenberg. "The foreign banks simply have no relative advantage."

Thorny questions on the long road to peace

Continued from previous page:

any Israeli attempt to pre-empt the "final status" negotiations agreed in Oslo, due to run until May 1999 and decide on Jerusalem, statehood and borders, refugees and settlements, could also prove deadly.

Mr Ahmed Qorei (Abu Ala), one of the two Palestinian negotiators of Oslo, recalls that "Labour's negotiators had the same logic to begin with". Mr Rabin sent a list of 40 questions on security to Oslo before he agreed to sign. "They changed their views because they felt they had found an honest partner," he says, implying that the new government might, too. But "if the Israeli government doesn't want peace," he warns, "we have our alternatives, too."

On Syria, the new government reckons that the return of the Golan ranks a lowly fifth down President Hafez al-Assad's priorities, below security for his regime, Syria's regional status, control of Lebanon, and good relations with the West. Mr Zalman Shoval, a former Israeli ambassador to the US and Likud foreign affairs adviser, says "we should try an incremental approach with Syria", including negotiations on water, economic aid, security in south Lebanon where Syria licenses Hizbollah guerrilla attacks on the Israeli occupation as a prod for its own demands, and "helping them get off the US list" of countries sponsoring terrorism. However, this ignores that if ever Mr Assad agreed to talks which did not centre on the Golan, his regime's legitimacy, his standing in the Middle East, and probably his control of Lebanon would start slipping away. Furthermore, the conclusions of June's Arab summit essentially reflect Syria's position towards Israel. The Netanyahu government's idea that any Arab leader can acquiesce in Israeli land-grabs and feel confident of his own security was laid to rest in Cairo.

There is, however, a contrary argument to be considered. First, although Labour dropped its opposition to a Palestinian state, Mr Peres would not have found "final status" negotiations any easier. He was already angling towards a confederal, "triangular" agreement with Jordan that embraced Palestine, and that remains the Israeli orientation. Second, whereas Mr Peres would only have won had enough Israeli Arabs supported him (rather than abstained in disgust over his April bombardment of Lebanon and blockade of the Palestinian territories), Mr Netanyahu commands the majority of Israeli Jews. Third, therefore, he is better placed to sell any concessions. And, as Hirsh Goodman, the editor of *The Jerusalem Report* magazine puts it, "in order to prevent that bomb that 'Mr Security' cannot afford, he needs the Palestinians" even more than Mr Peres.

■ Israel Discount Bank • By Yaroslav Trofimov

Darling of the stock market

There are special reasons why a recent offering of IDB shares went through the roof, despite a widely depressed market

Executives at Israel's third largest bank, the Israel Discount Bank, look back with pride to the day in March, when, despite hysteria caused by a series of Palestinian suicide bombings, some 16 per cent of IDB shares were snapped up by investors in an extremely sucessful international offering.

As a result of the surprise over-subscription, the IDB shares, initially priced at Shk2.9, finally were sold for Shk3.2 – even though the Tel Aviv stock exchange as a whole remained depressed.

"I felt elevated after this result," said Mr Gideon Lahav, chairman of IDB's board of directors. "It pays tribute to the bank. And the reason of this success is that we have no hidden shortcomings. The composition of our assets is relatively simple to understand."

Indeed, unlike the two other big state-owned banks – Bank Hapoalim and Bank Leumi, which hold a complicated network of non-financial assets – IDB, owned before the 1983 banking crisis by the Recanati family, traditionally has been kept separate from the family's non-banking IDB Holdings firm.

Though IDB's inflation-adjusted return on equity in 1995 (7.3 per cent) was lower than the industry's average, the bank's long-term prospects look bright because, unlike Bank Hapoalim and Bank Leumi, it has emerged almost unscathed by this year's banking reform law, devised by David Brodet, director-general of the finance ministry.

None of IDB's profits are derived from non-financial holdings – which, in accordance with the Brodet legislation, the other two state-owned banks now have to spin off.

The only important asset IDB must sell is its wholly-owned and very profitable affiliate, the Mercantile Discount Bank – temporarily delayed by a lawsuit. "We feel that the separation with Mercantile is harmful to both banks, and for the time being, while the lawsuit goes on, we are happily owning 100 per cent of it," said Mr Lahav. The final version of the Brodet reform allows IDB to keep its lucrative 25 per cent stake in the First International Bank of Israel – though analysts warn that the IDB may be forced to sell this position at a later date.

The IDB's net 1995 profits were $77.7m on assets worth $22.3bn. Its domestic market share is nearly 20 per cent.

The IDB's liquidity ratio, 38.2 per cent in the first quarter of 1996, is extremely high, and its credit to the public is just 65.5 per cent of public deposits, the lowest ratio among main Israeli banks – which, according to Mr Lahav, provides sufficient room for lending growth. Analysts say that the IDB is one of the best-managed Israeli banks, a legacy of its history as a privately-held institution.

"Discount is traditionally a very conservative bank," explained Mr Keith Phillips, head of the Israel office of the Société Générale Strauss Turnbull Securities, an underwriter of the March offering. "And the reason for this is that, historically, Discount was privately owned, unlike Hapoalim or Leumi. The people there were doing business with their own money."

> Prospects for the traditionally conservative Discount Bank look bright

Some of IDB's recent lending, however, has been provided to Israel's real estate sector, to which the IDB is more exposed than any other Israeli bank. However, according to Mr Phillips, this danger should not be over-estimated. "The IDB looked at it carefully and they don't see big losses, though they realise that there is a possibility of a slowdown." As a proof of IDB's tradition of careful approach to lending, analysts point out that, unlike the two other state-owned banks, it is not saddled by problematic loans taken out in the 1980s by Israel's troubled agricultural sector.

This conservative portfolio, coupled with the lack of "skeletons in the closet," is one of the bank's main advantages for a cautious buyer, analysts add. The IDB, *founded in 1936*, is up for privatisation, though no sale deadline has been set.

Once all the warrants floated in March's offering are exercised, 71 per cent of IDB shares will be owned by the Israeli government, which does not intervene in management decisions but whose committee, headed by a judge, appoints all 15 of the bank's directors. The Recanati family, which owns 13 per cent of the bank, is legally prevented from participation in running the IDB because of court proceedings over its alleged role in the 1983 bank shares' manipulation scandal.

Among the "big three" state-owned Israeli banks, the IDB enjoys the highest "stand alone" financial strength rating by Moody's Investors Service, a "C".

Moody's explained this rating by pointing out the IDB's interest spread – 2.66 per cent in 1995 – which is the highest in the industry. This lucrative interest margin is due to a relatively high share of the non-linked shekel sector, where the average spread is some 6 per cent, in the IDB's portfolio.

This advantage, however, has a downside. The non-linked shekel sector, unlike the inflation-linked or forex-linked sectors, is mostly made up of handling small individual accounts which involves high operating costs. As a result, the IDB's 1996 first quarter efficiency ratio (operating income vs operating expenses), 41.1 per cent, while an improvement on 38.8 per cent for 1995, is still the lowest in the industry.

Another peculiarity of the IDB is that a whopping 20 per cent of its total deposits are held by the wholly-owned US subsidiary, the Israel Discount Bank of New York. The New York bank's recent dollar profits have been transformed into shekel losses on the IDB's overall books because of the Israeli currency's overvaluation.

INTERVIEW Jacob Frenkel, central bank governor – report by [illegible]

Inflation fighter

Mr Jacob Frenkel, central bank governor and the key point man for economic policy of the Netanyahu government, never *seems* happy with the pace of economic reforms.

In an interview, the former Chicago University economics professor and tough inflation fighter *said* he had urged the government to cut Shk6bn from the 1997 budget, rather than the Shk4.9bn agreed by the cabinet.

Nevertheless, he believes the new government has embarked on a fundamentally new economic course after a long period of economic drift in Israel and that the recent measures taken are "pretty bold in the current situation".

He added: "*I think that Mr* Netanyahu is now hooked to a radical economic reform agenda and that it is part and parcel of his strategy for winning a second term in the year 2000.

"The hope is that by the then, the election *agenda* will be more about economics – about how to have sustainable *growth with low inflation.*"

Mr Frenkel says the agenda, which he has helped forge in a series of meetings with Mr Netanyahu, is to reduce the role of government in the economy as a share of gross domestic product, decrease the tax burden, lower inflation, dismantle foreign exchange controls, "*massively*" *privatise* the state-owned sector, carry out structural reforms which increase the flexibility of capital and labour markets and continue the ongoing process of trade liberalisation.

Critical to this process, *according to the governor, is* to set a multi-year reduction of the overall budget deficit. *And Mr Frenkel* says the early cabinet decision to reduce the overall budget deficit each year from 3.9 per cent of GDP last year to 1.5 per cent of GDP in the year 2001 is vital.

"The key challenge for the government has been to launch a credible package of budget cuts that will convince the market that it really means business when it declares its goal to cut its size and restore budgetary control," he said.

"The first decisions of Mr Netanyahu – on the budget and on taking control of the sorry privatisation process – have been pretty bold."

The governor predicts that *recent interest rate hikes,* combined with the package of budget cuts, will dampen inflationary pressures allowing the central bank's nominal rates – currently at 17 per cent – to start to slowly come down in the coming *months.*

He concedes that Israel's economic growth will slow in the coming years to 4-5 per cent, but he believes that is central to helping make the economy more lean and more efficient.

"We have been *growing too* fast – more than 7 per cent last year alone – and I do not believe this is sustainable and consistent with reducing inflation," says the central *bank governor. "We should be* ready for a period of slower growth.

"I don't predict a recession, but in order to create the conditions for sustainable *growth we must go through a* transition period of work-out. We are talking about a soft landing – of a steady and controlled slowdown."


Frenkel: aiming for a steady and controlled slowdown

■ **Company profile:** ECI Telecom • By James Harding

An audible voice in a global market

At the forefront of Israel's surging telecoms sector stands ECI Telecom – one *of the very* few Israeli telecoms equipment manufacturers with an established track record and an audible voice in the global market

Unlike so many other companies in Israel's "silicon valley", ECI is more than a niche player – the company makes systems to enable access to the information superhighway, develops global networking systems and remains a leading provider of transmission technology that enables third and second world economies to improve the speed and capacity of the telecoms networks.

In the last nine years, ECI has reported consistent year-on-year improvements in their annual results, with net *income for 1995 at $87.8m on* sales of $451.4m. (Israeli companies do not give pre-tax figures.) Such figures and the growing order book in Asia *have made ECI a darling of* Nasdaq. In Israel, only Teva Pharmaceutical Industries, the drugs manufacturer, outranks ECI.

What *makes* ECI Telecom a rare breed according to Mr David Rubner, president and chief executive, are two things: "experience and extreme customer responsiveness".

There are other qualities that have underpinned ECI's growth – time to market, expertise garnered in the Israeli defence sector, and a competitive domestic environment that fosters new technologies – *but they are not unique* to ECI. Where ECI is different is in its track record. In comparison with Israel's recent flood of high-tech offerings on *Nasdaq, ECI is an old hand.* It was a public company in 1980.

More importantly, according to Mr Rubner, the ECI management has had its taste of disaster. *In 1986,* the company reported a loss of $8m on sales of $19m, when the management inflated costs without an eye for the hiccoughs on the *order book. "Contrary to* normal practice a broad-minded board did not change the management," Mr Rubner says, "and New York likes a management that went through a crisis and came out the other side."

What is most interesting to its Israeli competitors, however, is the "extreme customer responsiveness". A common refrain in Tel Aviv is that however world-beating the technology of an Israeli start-up, the company comes unstuck over international marketing.

"The story in Israel is not as *shiny as it looks.* We have been talking about high-tech for 15 years, but only a handful of businesses, companies like ECI, have made it into the big league. The rest remain $150m-$200m companies, because they are all run by engineers not marketing people," he says.

ECI, however, has committed *time and money to transforming* itself into a market-oriented company. The company has principal marketing operations in the US, UK, Germany, China and the Philippines. The local presence has enabled ECI to push its transmission systems into the emerging Asian markets: last year, ECI started supplying access subscriber line multiplexers to the Philippines and provides *synchronous digital* hierarchy equipment to Inner Mongolia in China.

At the end of last year, ECI noted with some satisfaction that while *16 per cent of 1995* revenues were earned in the Asia/Pacific region, almost 25 per cent of new orders booked were generated there. Overall, 48 per cent of sales were in Europe and 25 per cent in North America.

The emerging markets, coupled with investment in new technologies, give ECI reasons to maintain its nine-year record of uninterrupted quarterly profit growth.

However, Mr Rubner prefers to be cautious, acknowledging the obstacles to continued growth – the shortage of qualified engineers, the political environment, the mood in New York to high-tech stocks and the dangers involved in buying other companies, something *ECI is seeking to do.*

Nevertheless, if Israel is to build more global businesses and companies with greater international weight, Mr Rubner believes more merger and acquisition activity is a necessity.

■ **Telecommunications** • By James Harding

Innovative electronic towers of Babel

Telephone services have exploded due to deregulation, Israelis' verbosity, and new gadgetry

Israelis' love of talking is the reason given by Yitzhak Kaul, chief executive of Bezeq, the state-owned telecoms group, for the proliferation of telephone services, the enthusiasm *for new devices* and the soaring sales of the telecoms industry in Israel.

There is, perhaps, more to it than this.

Aggressive management, slow but steady deregulation and technological innovation have *fostered* Bezeq's development into a highly sophisticated national phone service. *In turn, Bezeq has acted as the* greenhouse for Israel's blossoming high-tech and telecoms equipment companies.

However, within the coming few years the telecoms sector in general – and Bezeq, in particular – face a number of key *challenges: international telephony* is opening up to foreign competition and local services must eventually follow; there is growing pressure to resolve the lingering issue of Bezeq's privatisation; and the government will have to clarify the regulatory regime.

Bezeq's transformation into a highly competitive and profitable telephone business over the last decade make it one of the *government's* leading candidates for privatisation.

Sales have grown to Shk7.16bn in 1995 from Shk5.04bn in 1990 generating net profits of Shk566m last year, more than double the NIS212m profit figure five years earlier.

Much of that improvement is attributed to Mr Kaul and his fiercely profit-minded management. Mr Oren Most, vice pres*ident of Cellcom,* Bezeq's rival in the cellular phone market, says: "Kaul's leadership and vision have taken them ahead of the game dramatically, particularly when compared to where they used to be."

Over the 10 years since Bezeq was redefined as an independent, government-owned company, the number of telephone lines has doubled, the system has been digitised, the labour force cut and sales per employee lifted.

The improved competitiveness and reputation for technological *skill has recently won* Bezeq contracts in India, Hungary, Kazakhstan and Uzbekistan – all of them building Bezeq's international credibility.

But the most conspicuous evidence of the burgeoning telecoms industry is the range of new gadgets available to the consumer. Bezeq recently launched Mango, a cheap cellular phone primarily for the teenage market, a free call-waiting service, a "follow-me" *service enabling the user to be* contacted on any phone using one number and computerised collect calling.

> The Israeli government's preferred option has been to find a strategic partner for the national telecoms group

The relentless innovation has done as much for Israel's telecoms equipment industry as it has for Bezeq.

Mr Hanan Achsaf, president of Motorola Israel, the subsidiary of the US company, says, "Bezeq is one of the largest customers – if not the largest customer – of *Israeli industry* and has had a major impact on the transition of the Israeli high-tech industries."

Typical of the symbiotic rela*tionship between the national* telecoms company and equipment manufacturers has been the emergence of Telrad as an international provider of switching systems, transmission equipment and customer premises equipment on the back of its business with Bezeq.

Telrad, a fully-owned subsidiary of Koor Industries and earmarked for flotation next year, continues to sell the bulk of its products in Israel, primarily to Bezeq, but last year lifted export revenues to $168m out *of total sales of $397m.*

"Before 1990 the company was totally reliant on Bezeq and Telrad's success has depended on the Israeli market being more demanding than the world market," says Mr Bezalel Levin, Telrad president.

In the one telecoms sector that has been opened for competition – the cellular phone market – it has been a similar tale of burgeoning success.

In December 1994, Cellcom – the consortium including Bell South, IDB, and the Safra brothers, which had narrowly won the licence to compete with Pelephone, the Bezeq/Motorola joint venture in the cellular phone market – opened for business.

Eighteen months later, Cell*com has 300,000 subscribers.* With estimated sales of $70m in the first three months of this year, the company is edging towards profitability while still providing services on the low rates set by the government for the first three years *of the service. In the coming* years, it has the option to double its rates.

Encouragingly for Bezeq, low-cost competition from Cellcom opened up the market and Pelephone subscriptions have also soared.

The successful, albeit partial, liberalisation of the cellular market has allayed some fears at Bezeq over the government's offer this year of two more licences *to run international* services.

"We hope that the effect of competition on the international market will be similar to that *in the cellular market* – that demand will increase," says Mr Kaul.

However, there is limited enthusiasm for deregulation: "We want market competition

Continued on page 7

■ **Global trade** • By David Gardner

Harvest of the first fruits

The benefits that follow from the softening of the Arab boycott are too valuable to lose

The Middle East peace process has been an economic bonanza for Israel, enabling it to break out of isolation into new markets, and to attract significant flows of foreign investment.

Since 1992, diplomatic recognition of Israel has doubled from 85 to 161 countries, exports have doubled, and foreign investment in Israel has increased over six times to more than $2bn last year, all helping to fuel growth levels averaging over 6 per cent of gross domestic product. Conventional wisdom in Israel attributes about 10 per centage points of the 25 per cent real growth of 1992-95 to the peace process.

Businessmen who together account for nearly 70 per cent of Israel's GDP took the unprecedented step of endorsing Labour prime minister Shimon Peres in the May 29 general election, arguing that growth at this level depended upon the continuation of the peace process.

But Mr Benjamin Netanyahu of the hardline Likud narrowly won, and the main Tel Aviv stock index lost 5 per cent of its value the following day. Mr Netanyahu then formed a coalition which says in its programme that it intends to keep most of the Arab land Israel still occupies, turning its back on the "land-for-peace" formula which underpins detente in the region.

In the ensuing economic debate, the central question has become whether Israel, a dynamic economy which depends on integrating into the global market for its success, risks forfeiting these gains if it is seen as feeding a new cycle of violence in the Middle East, rather than as the animator of "the new Middle East" based on cooperation and development advocated by Mr Peres. Whether, in sum, the peace dividend for Israel is irreversible.

The opportunities opened by the peace process can hardly be under-estimated. The Arab boycott, in particular the secondary boycott on companies doing business with Israel, withered away. Israel was able to reach an association agreement with the European Union, as part of the Euro-Mediterranean partnership strategy embracing 11 Arab countries. This agreement is unique in that it gives Israel a (non-voting) seat on the steering committee of the EU's R&D programme, and the opportunity for Israel's equivalent of Silicon Valley to establish itself in the EU single market.

To the East, Israeli merchandise exports to Asia grew 91 per cent in dollar terms in 1992-95, more than double the overall increase in exports of 43 per cent. The office of Israel's chief scientist has more than 3,000 high-tech start-ups on record, a good number of them already $500m companies. Can all this be insulated from geo-political upset?

Mr Ron Lubash, managing director of Lehman Brothers Israel, distinguishes between a Labour party establishment of business conglomerates developed as the "power tools" of an embattled state, and a new, nimble high-tech economy "which to an extremely high degree is isolated from the domestic economy". The former, he says, "have enjoyed their best shot at a clear blue sky only in the last three years. From chemicals to tourism, they could at last have a global strategy. Before that, we were locked in a cage. You could double your exports just by finding an agent in Indonesia. Add South Africa and Poland, and you could triple."

Israel is already integrated into world financial markets, Mr Lubash points out, with more than 100 companies listed abroad, mainly on the Nasdaq, and with Israel's high-tech sector generating more offerings than Silicon Valley.

But around 80 per cent of Israel's economy is in tradeable goods and services, and it is markets for exports from Israel – whether by Israeli companies, foreign investors or joint ventures – which are at issue.

Before the peace process began, most of Asia, Africa and eastern Europe was closed to Israel because of the Arab boycott. The opening to eastern Europe has more to do with the collapse of the Soviet Union than the peace process. But the other markets remain sensitive. Israeli exports to Hong Kong, for instance, now rival its sales to Japan, but not because Hong Kong absorbs these goods. It re-exports them – primarily to Indonesia and Malaysia, predominantly Moslem countries still coy about open dealings with the Jewish state – and to the Gulf.

Even at second hand, these key markets will not be able to deal comfortably with an Israel which insists on indefinite

> Around 80 per cent of Israel's economy is in tradeable goods and services

Jewish domination of Arab east Jerusalem, the third holiest site of Islam, which Mr Netanyahu's government programme says will remain "for ever" under Israeli sovereignty.

In response to last month's warning by Arab leaders meeting in Cairo that they would reconsider their relations with Israel if Mr Netanyahu tears up the land-for-peace negotiations, Malaysia immediately said it would do likewise. The EU, simultaneously at its Florence summit, stated its commitment to a Palestinian state on the West Bank with Arab Jerusalem as its capital.

But there are plenty of Israeli businessmen who believe economic self-interest will win out over declaratory politics. Some also believe this works the other way: that the obvious benefits to Israel of global economic integration will restrain Mr Netanyahu, a convinced free-marketeer, from backsliding too much on the peace process.

"We're seeing business as usual, because nothing untowards has happened," says Mr Erwin Eisenberg, president of the Israel Corporation, a group with combined turnover nearing $5bn. Israel Corporation, with interests from chemicals and minerals to financial services and high-tech, is a good example of the sort of integration brought by the peace process.

It this year agreed a $350m joint venture between its Dead Sea Works (DSW) subsidiary and Volkswagen to extract low-cost magnesium from the Dead Sea. This is a strong, prized metal to produce lighter, more fuel-efficient cars.

The extraction process was imported by Soviet Jewish immigrants, and the main VW vehicle to benefit will be a revamp of the classic Beetle, to be made by VW's Mexican plants.

Volkswagen reportedly wants to double its investment in magnesium output, to add a die-casting plant, and to build another magnesium facility across the Dead Sea in Jordan, where DSW has already established a rare Israeli-Arab joint venture to produce bromine for fertilisers. Volkswagen regularly reiterates that its venture, the largest EU investment in Israel, is a product of the peace process. Before Mr Netanyahu's election, Mr Ferdinand Piech, VW chairman, was quoted in the Israeli press as saying "if you make business you don't make war".

Mr Amos Mar-Haim, deputy chairman of Israel Corporation, says "they say it's the peace process because that's the right thing to say. But it doesn't depend on the peace process, and now they're in business, and it's too good to give up."

The group believes its relationship with Jordan will open up markets, perhaps disregarding the pressure King Hussein of Jordan will come under if Israel disregards Palestinian rights. Mr Mar-Haim says all this "is irreversible: there will be no Arab boycott again. It will be a matter of pure economic interest."

Mr Ptachia Bar-Shavit, chief economist at Israel's leading bank, Bank Hapoalim, says cagily that "in ordinary development cases this scenario is irreversible".

His deputy, Ms Vered Dar, says it "it depends on how you define 'irreversible'", and that the high-tech sector "would only be immune if it had nothing to do with exports".

"Are we going back to the [export] levels of 1987-90? Probably not," she says. "But would you get a decrease in the rates of increase [of growth and exports]?

"Yes, definitely, and it could take only a small step," such as the expropriation of more Arab land in east Jerusalem.

KEY FACTS ON ISRAEL

Area	20,325 sq km
Population	5.61 m
Head of state	President Ezer Weizman
Prime minister	Binyamin Netanyahu
Government ministers	See list on Page 8 of this survey
Currency	Shekel (Shk)
Average exchange rate	1995 $1=Shk3.0087
	1996¹ $1=Shk3.1749

ECONOMY	1995	1996²
Total GDP³($bn)	86.7	94.5
Real GDP growth (%)	7.1	5.5¹
GDP per capita ($)	15,466	16,435
Components of GDP (1994, %)		
Private consumption	61.8	n/a
Government consumption	29.2	n/a
Gross fixed capital formation	24.9	n/a
Change in stocks	1.3	n/a
Exports	32.3	n/a
Imports	-46.9	n/a
Annual change in:		
Consumer prices (%)	8.1	11-13**
Ind. production (%)	8.0	5.5
Unemployment (% of lab force)	7.3	7.2
Foreign exchange reserves ($bn)	8.1	8.5
Forex r'cpts eg tourism, ($bn)	3.3	3.3
PSBR (% of GDP)	-2.8	-3.0
Money supply M2⁴ (%)	13.2	13.0
Stock mkt index⁴ ⁵(%)	19.65	-6.41¹
Total foreign debt ($bn)	32.1	34.0
Current account balance ($bn)	-4.1	-4.02*
Exports ($bn)	18.87	20.60
Imports ($bn)	-25.89	-27.60
Trade balance ($bn)	-7.02	-7.00
Main trading partners (1995, %)⁶	Exports	Imports
EU	32.2	52.3
of which:		
UK	6.1	8.3
Germany	5.5	9.7
Belgium	5.4	12.1
US	30.1	18.6

(1) Year to date; (2) Forecast unless otherwise indicated; (3) Nominal; (4) Annual % change; (5) Mishtanim 100; (6) Share of world trade; *Forecast, Central Bureau of Statistics; **FT estimates.

Sources: Datastream, EIU, FT Statistics

■ **Stock market** • By Julian Ozanne

Turnaround may be in sight

An interest rates rise has wiped 10% off share prices. But the peak may have been reached

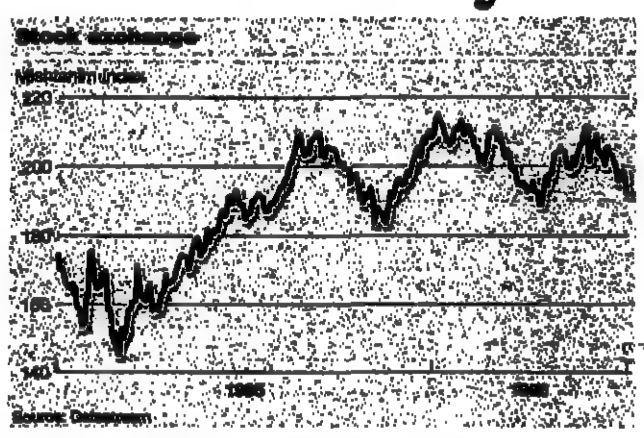
Israel's equity market has entered a period of stagnation marked by low volumes and dwindling prices in the face of high interest rates, a strengthening shekel and uncertainty over the new government's Middle East peace policies.

Yet if the government continues to press ahead with far-reaching economic liberalisation policies the market, cheap compared to Latin America and Asia, could see a big turnaround by the end of the year, with prospects for solid growth in 1997 and 1998.

The market's doldrums were starkly apparent earlier this month after the cabinet formally approved a substantial Shk4.9bn round of expenditure cuts from the 1997 budget and a surprise Shk350m cut from the 1996 budget. The next day the Mishtanim index of the top 100 Israeli shares fell 0.12 per cent on volume of Shk65m.

The dull response to the government's impressive budget cut, part of an effort to slice inflation running at 15 per cent on an annualised basis, marks the fact that the market is overwhelmingly being driven by high interest rates.

In June the central bank raised its key lending rate by 1.5 per cent to 17 per cent in the face of continued inflationary pressures. Investors continued taking their money out of mutual funds and switching to Treasury bills and bank savings accounts, exacerbating a deepening crisis in the Israeli mutual fund industry. According to the treasury, the public has withdrawn Shk10bn from mutual and provident funds since 1994.



"The market sentiment is all down to interest rates," said Mr Gad Haker, head of Tel Aviv based Batucha Securities international department. "The alternative investment for stocks in the money market is just tremendous – 16 to 17 per cent in an environment of falling inflation. It is too hard to beat."

The rise in interest rates, combined with the uncertainty surrounding the intentions of the Netanyahu government, has wiped 10 per cent off share prices in the past six weeks.

Yet what has stopped the market crashing even further is that most investors know that its fundamentals, particularly corporate earnings, are positive and that foreign investors have come to Israel in the past three years to stay. Many investors also believe that interest rates have now peaked and that as soon as the monetary brakes are loosened, prices will rise steadily.

Furthermore, although many investors feared that the election of Mr Benjamin Netanyahu and the right-wing would lead to a collapse of the peace process and scare foreign investors, they are slowly coming round to the view that his government may actually be good for the market. In the first place, it seems likely that the peace process will decelerate rather than collapse. Secondly Mr Netanyahu, in office for less than one month, has already proved his deep commitment to radical economic reform, attacking inflation by slashing the budget deficit, speeding up Israel's snail-like privatisation process, reducing the public sector and the share of government in GDP and introducing a spate of measures to bring more competition to the economy.

Many investors believe that as soon as the monetary brakes are loosened, prices will rise steadily

The economic measures already put in place, however, are unlikely to have significant impact in the short term. But investors generally believe that inflation will continue to decline throughout the year, allowing the central bank to ease interest rates by the fourth quarter with a corresponding weakening of the shekel and a rise in earnings of export-oriented companies. Private domestic savings of about $4bn a year also provide a considerable foundation for equity growth when monetary policy is relaxed.

Furthermore, the outlook for corporate earnings this year looks robust, with a gain of 10-12 per cent expected. Though growth will slow next year from an estimated 5.3 per cent to 4.2 per cent as a result of the government's effort to force the economy into a soft landing, corporate earnings are still predicted to show substantial growth in 1997. Export-oriented companies, such as Koor Industries, Makteshim and Tadiran, will also benefit significantly from depreciation of the Israeli currency.

Many investors, both local and foreign, do not wish to be left out when prices rebound later in the year and they continue to see the present situation as a buying opportunity with the market trading at 12 times projected 1996 earnings. Batucha Securities says many of its foreign clients are continuing to buy selected securities but that it is very difficult to fill many of the orders while volumes are low.

The market is also considerably more mature than it was three year ago, thanks largely to a growing body of equity research by local and international investment houses. Salomon Brothers, for example, has continued to put out buy recommendations in the past month on such companies as Nice, Bank Hapoalim and First International Bank of Israel.

In the short term, however, the market is likely to drift further. Until there are concrete signs of a downward trend in inflation, prices will be affected more by the movements of arbitrage stocks on Wall Street, such as Teva Pharmaceuticals, Koor Industries and Tadiran, than by anything else.

But as Israelis head towards better returns in the money market, many foreigners, comparing Israel favourably in the medium to long-term to other emerging markets, will continue to accumulate their positions with an eye to a market recovery beginning later this year.

■ High technology companies • By James Harding

Swords into ploughshares

Many successful innovators have cashed in on skills honed during their military service

Technological know-how acquired while serving in the Israel Defence Force (IDF) has been put to commercial use by a generation of entrepreneurs. Their fledgling businesses were then nurtured by contracts from the international defence industry.

Mr Dov Tadmor, managing director of Discount Investment Corporation, the leading investment company in science-based export businesses, says: "Most start-ups are young men fresh out of the army, where they got access to new technologies – particularly in communications – and with the right finance and initiative they have set up new businesses."

The first irony of the high tech industry, therefore, is that it has been the relative decline in recent years of orders from the defence industry that has enabled these small military-minded companies to blossom into world-beating exporters of technological products for civilian use.

Figures from the Association of Electronics Industries, covering businesses from components manufacturers to software houses, show that its members' revenues grew to $5.8bn last year compared with $4.6bn in 1993. In that period, civilian exports grew by 51 per cent while military sales fell by 5 per cent.

Mr David Rubner, chief executive of ECI Telecom, tells a familiar story. ECI was founded by men who had served in IDF communications and airforce units in 1970 and started as a business providing telecoms services for the Israeli airforce. As defence orders declined over the last decade, the company looked for civilian applications for its military technologies and is now a leading producer of telecoms systems for PTTs worldwide.

Nice Systems has a similar pedigree. Set up and still managed by people who served in the same intelligence unit in their teens, the company has emerged from the military-industrial complex to offer digital recording systems for banks, telephone call centres and air traffic controllers. Last month, it brought a new product to the market – NiceFax, effectively a digital librarian for all documents entering or leaving a building by fax.

Such broad applications have made Nice Systems one of the Israeli darlings of Wall Street in 1996. Nice is one of the many success stories now registered on Wall Street that has made Israel the second biggest supplier of foreign stocks on Nasdaq after Canada.

> The flow of venture capital is the key to the remarkable emergence of Israel's 'silicon valley'

The second irony of Israel's high tech businesses is that while its success is founded upon the rock of the IDF and the nation's preoccupation with regional security, its future is more insulated than any other sector of the economy from the Middle East's volatile politics.

"The high tech sector is not dependent on the peace process or the Middle East situation because most of the companies are international, selling to the US and Europe and are focused on their markets," says Mr Zeev Holtzman, chief executive of Giza, the investment banking group.

Rad Data Communications is an example of the increasingly export-oriented sector. Mr Zohar Zisapel, Rad's president, calculates that 95 per cent of last year's $87m sales were overseas. Likewise, Gilat Satellite Networks, the manufacturer of Very Small Aperture Terminal (VSat) satellite earth stations, has increased sales to $41m last year (and aims for $60m in 1996) on the back of foreign business, such as contracts to provide dishes for the UK National Lottery and a pan-European network for PSA Peugeot Citröen car dealerships.

As Mr Tadmor observes, the success is not all down to the technologically-minded entrepreneurs: finance has let the businesses flourish.

The growth of the venture capital industry in the last five years has been as remarkable as the emergence of Israel's "silicon valley" and the two developments are not unrelated.

Mr Ed Mlavsky, president of Gemini Capital Fund Management, says investment in "talented, energetic entrepreneurs with a long-term vision of the future" has been the foundation of his venture capital business.

Gemini has not been alone. The seed for the growth of the venture capital industry was the Yozma fund, a government company created to invest in high tech start-ups. Thanks at least in part to Yozma's pump-priming, Mr Mlavsky estimates that from "a standing start" five years ago, there are now 10 venture capital funds in Israel.

The availability of venture capital is underlined by Mr Miron Katzap, economist at Batucha Securities, who says: "Start ups have no problem in raising money. In fact, they can be picky about which fund they go for as there is a lot of money knocking around, looking for projects."

More established businesses looking for larger sums or an exit have tended to turn to Wall Street to raise capital and the number of companies floated in New York is a measure of the sector's success. It is also one of its potential frailties.

While Israel's high tech companies may be insulated from the ups and downs of the peace process, the long-awaited reappraisal of "blue sky" high tech stocks on Nasdaq and a sharp correction in the market would take its toll on Israeli companies. As one analyst in Tel Aviv says: "It is not the mood in the Middle East but the sentiment on Wall Street that will determine the future of these stocks."

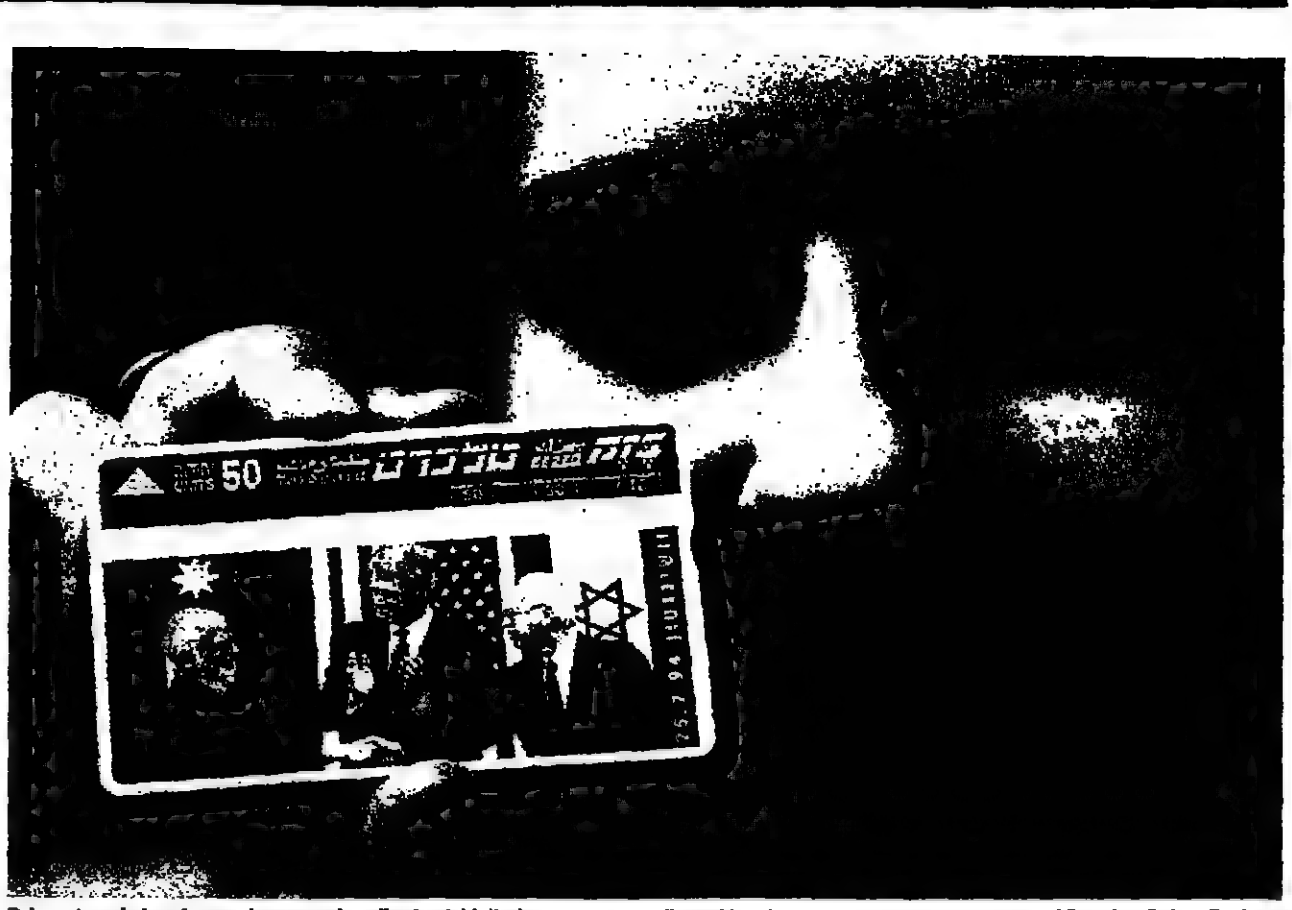
There are more fundamental obstacles for Israeli companies that are aiming for a substantial share of world markets. The biggest structural problem is the limited number of skilled workers coming into the labour force.

Mr Hanan Achsaf, managing director of Motorola Israel and chairman of Israel's Association of Electronics Industries, estimates there are about 1,000 new graduates a year eligible for high tech jobs, which is "far too low to meet market demands". The lack of skilled employees is acting as a brake on the sector's growth, he believes.

Problems have also arisen where Israeli entrepreneurs have developed world beating technologies that have run ahead of what the market needs or can afford.

The most obvious example is Indigo, renowned both for the superiority of its product, the E-Print 1000 digital offset colour printer, and for its roller-coaster performance on the stock market. Investor enthusiasm for what the E-Print 1000 can do pushed the share price up until it became clear that very few companies were prepared to pay the price for a product which was more sophisticated than their needs.

However, the hiccoughs are in no danger of stalling the spirit of innovation and commercial dynamism. In the suburbs of Tel Aviv, for example, Mr Eli Reifman sings the praises of Geo, the 10-month old start-up where he is senior vice president. The company has just brought out "Emblaze", which it claims is the first technology to offer real-time, on-line moving colour animation – an offshoot of Mr Reifman's experience in the multimedia unit of the IDF. The army has given birth to another high tech wannabe.



Poignant reminder of peace hopes: an Israeli schoolgirl displays a phone credit card bearing a photograph of the late Israeli Premier Yitzhak Rabin, US President Bill Clinton and Jordan's King Hussein at the July 1994 White House summit. Mr Rabin was assassinated in November, 1995 Reuter

Unresolved issue on Bezek sale

Continued from page 5

but we want to maintain the local monopoly. The decision to allow three companies to compete [in international services] for such a small market is a little too much."

Nevertheless, Israeli analysts believe deregulation of the domestic market is inevitable, but not imminent. More pressing is the biggest question that hangs over Bezeq: privatisation. The government's preferred option has been to find a strategic partner for the national telecoms group. The problem has been that the partner that initially came to the fore was not the one the government had in mind.

Last year, Cable and Wireless, the UK communications group, quietly scooped up 10 per cent of the stock on the Tel Aviv market, seeming to foist itself upon the government as the strategic partner – making it unlikely that companies such as AT&T or BT would make themselves available as a partner in a government-managed international tender.

The C&W manoeuvre in the market prompted the government to pull a global offering of a further 25 per cent of Bezeq stock. It has also put the privatisation on hold. Mr Benjamin Netanyahu, the new prime minister, has promised to press ahead with privatisations. However, the Bezeq sale will require more than a public commitment to the Tel Aviv stock exchange; it will need a resolution of the relationship with C&W. Mr Kaul says he will press the government to resolve the issue quickly, but only "hopes" a solution will be found and privatisation can go ahead. In the meantime, much hangs on Mr Kaul's continuing commitment to treating the national telecoms operator like a private company.

■ Case study: the state-sponsored Technological Incubator Programme • By James Harding

Successfully hatched and matched

How a bright idea won support from five venture capital funds

Mr Yosef Tsinman was an entrepreneur with an invention he could not sell.

Potential investors were sceptical about the proposed technology to purify materials in the diamond industry; they had doubts about the possible application of the idea; and, they had misgivings about Mr Tsinman, a Russian immigrant, aged 82, with negligible business experience, no Hebrew or English.

The state-sponsored Technological Incubator programme, however, was not so dismissive. As Mr Alex Sergenko, Mr Tsinman's son-in-law, developed a business plan, the manager of the Haifa incubator considered whether there was more to Yosef's invention than just wishful thinking.

It was decided that while there was little possible use for the technology in the diamond industry, the process could well be used to remove impurities from the silicon wafers in computer chips – an application with considerable potential.

After two years of research and development in the incubator and a US road-show, Mr Tsinman's idea has won the support of five venture capital funds, which have sunk $4.5m into the company, Sizary Materials Purification. The company has built a production plant in Galilee in northern Israel and has started taking its first orders.

Sizary is one of the flagship successes of the incubator programme, the government scheme launched in 1991 to nurture high-tech innovation and exploit the technological know-how of the hundreds of thousands of Russian Jews who came to Israel with the break-up of the Soviet Union.

Although the programme has its critics and it represents only a fraction of state support to Israeli industry, the incubators have swiftly addressed two critical issues in Israel in the early 1990s: innovation and immigration. According to Ms Rina Pridor, manager of the programme, the problem facing fledgling entrepreneurs was occurring at the earliest stage of their development.

While the government has more than Shk1bn to commit to viable commercial projects in the high-tech sector – distributed through the office of the chief scientist in the ministry of industry and trade – many would-be start-ups did not even have the preliminary R&D complete to meet the standards required for government funding, let alone private sector investment. Nor did many of the entrepreneurs have substantial business experience or much respect for managerial discipline.

Documentation was a difficult hurdle for some of the 450,000 immigrants from the Soviet Union. "They were paranoid, understandably, that if they wrote down their ideas they might be stolen and were keen to keep all the innovation in their heads," says Ms Pridor.

To ease this problem the office of the chief scientist established 27 incubators, run as non-profit organisations, managed by a professional director and overseen by a board of grandees from business and science. Technological projects with export potential are offered two years accommodation, a grant of up to $300,000 and managerial support and advice.

"We did not invent the concept of the business incubator – there are hundreds in the US and in Europe – but we modified it to our specific needs so that today it is a unique programme," Ms Pridor says.

Also unique, she claims, is the programme's success rate. To date, 250 projects have "graduated" from the incubator programme, of which 40 per cent have failed, 20 per cent are still operating but without commercial investment and 40 per cent have won private sector support ranging from $100,000 to $6m.

However, some Israeli businessmen have their doubts about that success rate and broader concerns about the programme in general.

The incubator programme has only made the tiniest dent in the problem of absorbing Russian immigrants into the Israeli economy – employing fewer than 500 immigrants in all.

The scheme has also been criticised for offering insufficient financial rewards for Israeli entrepreneurs, who, given the venture capital interest in Israel today, are more likely to turn to the private sector. Indeed, the decline in applications for incubator support is in part a reflection of that problem.

The detractors will only be silenced by a tangible success – an oversubscribed global offering. Ms Pridor says: "It is too early to judge who could make it in New York as the first projects came out of the incubators only two years ago. But we believe such successes will come." And Sizary, with its octogenarian innovator behind it, is tipped as one of the first.

■ **Tourism** • By James Harding

Tender flower of peace

A breakthrough in developing mass tourism is highly dependent on the climate for peace

Flying out to Israel, I seemed to be surrounded by people going to a wedding. Not the same wedding, of course – a daughter's wedding, a brother's wedding, a cousin, a friend of a cousin...

Come what may, the Jewish diaspora in Europe and America will continue to provide Israel with a steady stream of visitors coming to see family and friends. To a large extent, so too will the Christian pilgrim business guarantee a consistent source of revenue.

However, the challenge for the Israeli tourism industry is to develop the country's appeal to the impartial tourist all within the vagaries of the Middle East peace process.

More than any other sector of the Israeli economy, the future growth of the tourism business will rely on the new government of Mr Benjamin Netanyahu maintaining the peace-making momentum, as well as day-to-day security.

The correlation between peace and tourist receipts is striking. In 1987, the number of nights spent by tourists in Israel (possibly the most important measure of the industry's annual revenue) was 8.4m.

By 1991, after four years of the Intifada, the Palestinian uprising against Israeli occupation, and as a result of the Gulf War, tourist bed nights had dropped to 4.2m.

In the last three years, peace has been a remarkable fillip to the industry – *last year, for* the first time, tourist bed nights surpassed the 1987 figure, numbering 9.4m. The number of people who visited Israel has grown consistently from 1.6m people in 1992 to 2.5m people last year.

However, Mr Ami Etgar, of the Israeli tourist association, warns that "if the peace process freezes, it will cut that trend. Then we will be back to the situation where we will always *have* tourists – but we will not be able to lift the numbers."

Although the number of tourist bed nights was up a further 15 per cent in the first three months of 1996 compared with the same period last year, Mr Etgar already sees a slip in holiday reservations.

"The bombings and the situation in Lebanon and the new government means that the level of bookings is not as good as it was at the beginning of the year," he observes.

Not only tourists, but also international hotel groups appear to have adopted a cautious approach to Israel.

Nevertheless, Africa Israel Hotels and Resorts, which owns and runs the Holiday Inn chain, has grand visions for the industry but only if the peace process continues.

Mr David Fattal, general *manager, comments:* "This country *could* be Singapore or Hong Kong, the centre of the Middle East in terms of finance and business travel – but it all depends on the peace process."

> The last three years have been good for the industry

On the other hand, he says, "if we have the infrastructure and we have the peace, we can double the number of tourists coming to this country".

That is almost precisely the target of the ministry of tourism. By 2006, the government aims to have an industry that caters to 4.6m annual visitors and contributes $9.5bn to GNP.

To accommodate that number, the government is promoting the construction of 53,000 new hotel rooms across the country, more than doubling today's total to 91,000 in 10 years time.

Such ambitious targets are perhaps justified by Israel's extraordinary qualities as a tourist destination – from pilgrims' Holy Land to beach paradise for sun-seekers and bar-goers, and historical sites to fascinate the most bookish of travellers.

Mr Abraham Rosental, director general of the Israel Hotel Association, gives a broad-brush summary of Israel's assets: "It is a compact tourist destination – the businessman in a hotel in Tel Aviv crosses the street for a swim in the sea and becomes a leisure traveller. A few hours later he is in Jerusalem walking through the Old City, a pilgrim to the religious sites and an observer of history."

Mr Rosental's claim that Israel's "attractions are all built-in" is demonstrated when he lists the up-coming events in the Israeli tourist calendar: 1996 – the 3,000th anniversary of the City of Jerusalem; 1998 – the 50th anniversary of the founding of the state of Israel; 2000 – the 2,000th anniversary of the birth of Jesus Christ.

The events – opportunities for the hotel industry to fill rooms – are being complemented by efforts to offer new services to visitors.

In the heart of the Negev desert on the edge of the Mitzpe Ramon crater, Mr Ziv Spector has set up his ecotourist business, Desert Shade.

The company offers soft adventure – for example, week-long treks by foot, camel or bicycle through the desert with the guarantee of a guide, three tasty meals a day and a bed prepared for you under the stars at the end of it.

At the ministry of tourism in Jerusalem, there are even softer adventure options being planned. The government is looking at the possibility of supporting a biblical theme park.

The idea, which is still at an early stage, has had mixed reviews, but Mr Eli Gonen, director general of tourism, explains that the battle for tourists will not only be to attract them to Israel, but to keep them there.

"In the future, we will have to fight for the number of nights tourists stay in Israel during their trip to the Middle East – a two week holiday could be divided between Jordan, Egypt and Israel," he says.

However, hopes of tourism built on a regional trade – as with all other hopes in the Israeli industry – rest on the peace process.

Mr Ron Lubash, managing director of Lehman Brothers in Israel, says the impact of the new government on the economy will be seen first in hotel occupancy rates over the next few months.

Residual tourists – such as Jews coming to family weddings – may not be affected, but the marginal tourist could be conspicuous by his absence. For exactly that reason, hoteliers and tour operators are looking to Mr Netanyahu to persist with the peace process.

Changing the tourist map of the Middle East: Israeli tourists wave flags of Israel and Jordan on reaching the famous Allenby Bridge before crossing over to Jordan – helping to cement the end of 46 years of hostilities. Peace in the region is crucial to the development of tourism Reuter

Twenty layers of civilisation - including temples and a 5,000-seat Roman amphitheatre - at the remarkable 325-acre site at Bet She'an, one of Israel's most important archaeological areas. In 64BC, Bet She'an was given the status of an imperial Roman free city by Pompey

Benjamin Netanyahu has turned his attention firmly towards radical domestic reform and has promised to use his power as Israel's first directly elected prime minister to resist internal pressures

ISRAEL GOVERNMENT LIST

Here is a list of Israel's ministries, the new ministers and their political parties:

- ☐ **Prime Minister:** Mr Benjamin Netanyahu, (Likud).
- ☐ **Finance:** Mr Dan Meridor, (Likud).
- ☐ **Foreign Affairs:** Mr David Levy, (Gesher, Likud faction).
- ☐ **Defence:** Mr Yitzhak Mordecai, (Likud)
- ☐ ***Minister of Infrastructure:*** *Mr Ariel Sharon, (Likud).*
- ☐ **Education and Culture:** Mr Zevulun Hammer, (National Religious Party, NRP).
- ☐ **Internal Security:** Mr Avigdor Kahalani, (The Third Way).
- ☐ **Interior:** Mr Eli Suissa, (Shas).
- ☐ **Housing** (deputy minister): Mr Meir Porush, (United Torah Judaism).
- ☐ **Trade and Industry:** Mr Natan Sharansky, (Yisrael Ba'aliyah, new immigrants' party).
- ☐ **Justice:** Mr Ya'akov Ne'eman, external appointment (Shas affiliate).
- ☐ **Religious Affairs:** No appointment yet – held for Shas and NRP on a rotating basis; a dispute over who gets the ministry first has delayed an appointment.
- ☐ **Health:** Mr Tsahi Hanegbi, (Likud).
- ☐ **Labour and Welfare:** Mr Eli Ishai, (Shas).
- ☐ **Communications:** Mr Limor Livnat, (Likud).
- ☐ **Transport:** Mr Yitzhak Levy, (NRP).
- ☐ **Tourism:** Mr Moshe Katzav, (Likud)
- ☐ **Science:** Mr Ze'ev Binyamin Begin, (Likud)
- ☐ **Immigration:** Mr Yuli Edelstein, (Yisrael Ba'aliya).
- ☐ **Agriculture and Environment:** Mr Rafael Eitan (Tzomet, Likud faction).

Netanyahu's new course

Continued from page 1

in the period 1996 to 2000.

The government has also promised to announce, this month, several measures to attack monopolies, introduce more competition into the economy and speed the sluggish privatisation programme.

Two factors could dent the prospects for successful implementation of the economic vision of the Netanyahu government. Although much of the economy is insulated from regional instability, any return to widespread violence and uncertainty will have serious consequences on tourism receipts, foreign investment and Israel's ability to raise money abroad, particularly in Europe, a new capital market the government believes is now ready to be tapped.

The second challenge could come from political conflict within the government. Jewish religious fundamentalists, who have more power in government than ever before, will continue to press their theocratic agenda, alienating secular Jews and further frustrating any progress on the peace front. Ultra-nationalist ministers such as Mr Ariel Sharon, the former general, will seek to pull the government further to the right both on building Jewish settlements on occupied land, an explosive issue with Palestinians, and on taking harsher measures against Arab guerrillas.

> Violence could have serious economic consequences

Mr Netanyahu has promised to use his power as Israel's first directly elected prime minister to resist internal pressures and chart *his own* course. But he may find his strategy of radical reform at home and stagnation abroad frustrated by divisive political battles and a disintegrating Middle East peace process.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

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OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

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LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

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MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

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OIL, INTEGRATED

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OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

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RETAILERS, GENERAL

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RETAILERS, GENERAL - Cont.

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SUPPORT SERVICES

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SUPPORT SERVICES - Cont.

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TELECOMMUNICATIONS

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TEXTILES & APPAREL

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TOBACCO

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TRANSPORT

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WATER

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AIM

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AIM - Cont.

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AMERICANS

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CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

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Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This excludes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♣ Figures or report awaited
- ♦ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Assumed dividend. e Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid as whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK, Pvt Advisers 0800 414181 Jersey 01534 71696
Private Clients 0800 414161 00 352 250404230
Hong Kong (852) 848 1000

	Selling Price	Yield Gr's	City-Line
A$ Accum	A$19.839	6.30	40907
ASch Accum	Sch247.53	2.70	47644
C$ Accum	C$18.542	3.70	40941
DM Accum	DM38.112	2.10	41278
DFl Accum	Dfl31.530	1.70	40959
ECU Accum	Ecu13.382	3.30	41230
FFr Accum	FFr88.581	2.70	41252
HK$ Accum	HK$119.84	4.20	41318
Lire Accum	L23139	8.40	41386
NZ$ Accum	NZ$38.003	8.70	47544
NKr Accum	NKr111.52	3.30	40046
S$ Accum	S$25.078	1.80	40050
Pta Accum	Pta2591.3	6.40	50124
£ Accum	£12.868	4.70	41546

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Lloyds Intl Money Market Fund Ltd
Sarnia Hse, Le Truchot, St Peter Port 01481 724983
Lloyds Bank Fund Managers (Guernsey) Ltd

	Selling Price	Yield Gr's	City-Line
Australian Dollar ⊕	A$85.274	6.641	45405
Canadian Dollars⊕	C$29.309	3.885	44405
Deutschemarks ⊕	DM69.080	2.388	45406
Dutch Guilders ⊕	Dfl35.871	1.865	44913
ECU's ⊕	Ecu38.849	3.538	45407
French Francs ⊕	FFr186.841	2.889	45408
Italian Lire⊕	L26026.828	8.053	–
Japanese Yen ⊕	Y3398.893	0.111	45409
New Zealand Dollar ⊕	NZ$94.121	8.034	45410
Norwegian Kroner⊕	NKr101.791	3.632	–
Portuguese Escudos ⊕	Esc9764.112	8.828	44898
Spanish Pesetas ⊕	Pta3560.474	8.097	44945
Sterling Class ⊕	£30.556	4.815	45411
Swedish Kronor⊕	SKr103.315	5.019	–
Swiss Francs ⊕	SFr60.868	1.827	45412
US Dollar Class ⊕	$41.608	4.623	45413
Managed Sterling	£19.230	7.052	46759
Managed US$	$23.424	6.484	48160

Dealing daily

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port 01481 723663

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

INDICES

US INDICES

Dow Jones	Jul 12	Jul 11	Jul 10	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5510.56	5509.65	5581.86	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.13	101.13	101.25	105.89 (14/2)	101.03 (9/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2080.17	2106.99	2126.11	2299.30 (22/5)	1882.71 (18/1)	2299.30 (22/5/96)	12.32 (8/7/32)
Utilities	217.86	216.46	216.30	234.00 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5582.85 (5600.33) Low 5455.18 (5447.77) (Theoretical) Day's High 5543.07 (5609.65) Low 5471.78 (5471.04) (Actual)

Standard and Poors	Jul 12	Jul 11	Jul 10	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	646.19	656.06	654.75	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	766.31	779.79	778.72	807.88 (5/6)	702.07 (15/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	64.73	66.46	66.06	68.56 (5/3)	59.67 (10/1)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	346.84	351.75	351.57	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (28/4/42)
Amex Mkt Val	549.77	561.81	566.67	614.99 (22/5)	529.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Comp	1103.49	1141.19	1153.59	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

■ RATIOS

	Jul 5	Jun 28	Jun 21	Year ago
Dow Jones Ind. Div. Yield	2.22	2.19	2.17	2.37
	Jul 10	Jul 3	Jun 26	Year ago
S & P Ind. Div. yield	2.03	na	1.87	2.07
S & P Ind. P/E ratio	21.97	na	22.29	18.88

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron Tech	10,768,300	21½	+1¼
Utd Hlthcr	8,036,000	38	+2
Hewlett-Pd	5,518,500	78	-⅝
Utd Dominion	5,331,300	14⅛	-¼
Chrysler	4,380,700	56¼	-1⅜
Motorola	3,954,000	65¼	-⅜
Bay Network	3,543,700	25¼	+1⅛
Aetna Life	3,224,200	62⅝	+2
IBM	3,222,900	94⅞	-¾
Loral Space	2,925,300	13	+⅜

■ TRADING ACTIVITY

● Volume (million)	Jul 12	Jul 11	Jul 10
New York SE	398.718	518.464	423.471
Amex	18.335	26.809	24.903
NASDAQ	(a)	712.816	552.050
NYSE			
Issues Traded	3,138	3,160	3,174
Rises	1,200	520	1,011
Falls	1,154	2,005	1,380
Unchanged	784	655	783
New Highs	32	24	44
New Lows	75	133	72

■ S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	648.00	648.05	-0.30	652.50	643.50	96,248	177,995
Dec	658.30	654.20	-0.30	658.50	650.00	350	7,428

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	21620.0	21700.0	-280.0	21760.0	21600.0	21,048	225,470
Dec	21720.0	21710.0	-280.0	21720.0	21600.0	2,014	6,138

Open interest figures for previous day.

● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation.

AFRICA

NORTH AMERICA

Prices supplied by Telekurs

FT FREE ANNUAL REPORTS SERVICE

■ TOKYO - MOST ACTIVE STOCKS: Friday, July 12, 1996

	Stocks Traded	Closing Prices	Change on day
NKK Corp	7.6m	304	-10
Sankyo Co	5.2m	2900	+60
Nippon Stl Corp	5.0m	345	-6
Sumitomo Mtl Ind	4.8m	309	-4
Toshiba Corp	4.3m	760	-7
Takashima & Co	3.9m	735	
NEC Corp	3.4m	1170	-20
Nomura Secs	3.1m	1990	-40
Kawasaki Steel	3.0m	361	
Tky Kikai Seisak	3.0m	895	-4

4 pm close July 12

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	18½	AAR	0.48	2.6	18	695	19½	d18½	18¾	-¾
46⅛	36⅞	AMP	1.00	2.6	19	7111	38¾	37⅞	38¼	-½
97½	68	AMR			20	6611	83	80	83	+2½
50½	37⅞	ASA	1.80	4.5	26	115	40⅞	40⅜	40⅜	-⅜
44¾	38⅛	AbbtL x	0.96	2.2	19	24518	44⅜	43¼	44¼	+¼
17¼	12¾	Abitibi Pr	0.40	3.1	6	1679	13	12⅞	12⅞	-⅛
40⅜	27	ABM Ind	0.70	1.8	20	69	39¾	39½	39¾	-⅛
18⅝	13⅞	Acptncath			46	23	17⅞	17¾	17¾	+⅛
50⅜	37¾	ACE Ltd	0.56	1.3	10	1291	44¼	44	44¼	
9⅞	9⅛	ACM Gvt In x	0.90	9.2	8	472	u9⅞	9⅜	9⅜	
7⅞	6⅝	ACM GvOpp x	0.57	8.3		496	6⅞	6¾	6⅞	+⅛
7¼	6	ACM Gvt Sp x	0.66	10.2		959	6½	6¼	6½	+⅛
9⅛	8¼	ACM Gvt Se x	0.90	10.6		71	8½	8⅜	8½	+⅛
9½	8⅜	ACM Man x	0.90	10.4		448	8⅝	d8⅜	8⅝	+¼
30¾	16½	AcmeCiv	0.52	1.7	7	6	30	29⅞	29⅞	
13⅞	6¼	Acme Elect			40	139	7⅜	7⅛	7¼	-⅛
33¾	27¾	Acordia	0.80	2.5	19	5	32½	32⅜	32⅜	
21⅞	12	Acuson			60	349	13½	13¼	13¼	
19½	18⅜	Adams Expr	0.48	2.6	0	142	18⅞	18⅝	18⅝	-⅛
21¼	11⅞	AdvMic			7	10358	12⅝	d11⅞	12⅛	-⅛
11⅛	8½	Advest Grp	0.16	1.6	7	45	10	10	10	
26⅛	9⅛	Advo Inc	0.10	1.1	52	109	9⅝	9⅜	9⅜	-⅛
50⅜	41⅛	Aegon	1.19	2.5	14	98	47⅜	47⅛	47⅜	+½
6¾	3½	Aerfin			3	92	5⅜	5⅛	5⅛	-⅛
78¾	55⅜	AetnaL	2.76	4.4	16	28861	62⅞	61½	62⅞	+2
33	20¾	Aflac	0.40	1.4	12	821	29⅝	28⅞	29⅜	+¼
20⅞	17⅛	AGL Res	1.08	5.7	16	385	18⅝	18¼	18½	-¼

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

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- F -

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- G -

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- H -

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- I -

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- J -

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- K -

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- L -

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- M -

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- O -

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- P - Q -

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- R -

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- S -

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Continued on next page

4 pm close July 12

NYSE PRICES

Continued from previous page

[illegible]

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
		- V -								
63⅞	47⅝	VF Cp	1.44	2.6	23	1454	57¼	55¾	55⅞	-⅝
29	22⅛	VaalsE	0.52	2.2		1266	23⅝	23⅛	23⅝	+⅛
7¾	5⅝	Valhi Inc	0.20	3.2	14	23	6⅜	6¼	[illegible]	
29⅞	21	ValueHlth			56	317	23¾	23¼	23⅝	+⅛
11⅞	9⅝	VanKmCapMT x	0.72	7.2		171	10	9⅞	10	+⅛
6⅞	6¼	VanAmInMI x	0.70	10.6		171	6⅝	6⅜	6⅝	+¼
9½	8⅝	VnAmLtdMI x	0.95	11.0		5	8⅝	8¼	8¾	-⅛
28	17⅞	VKmpCapGd	1.54	8.6		99	18	d17¾	17⅞	
21⅞	20½	VKmpAmCav	0.88	4.3		6	20¾	20⅝	20⅝	
7⅝	7⅛	VKmpCPSM x	0.64	8.7		116	7⅜	7¼	7⅜	+⅛
19	8¾	Vanco Intl			39	584	18¾	17⅞	18¾	+⅝
62⅞	42¾	Varian	0.32	0.7	10	1283	46½	44¾	44¾	-¼
50⅞	32¾	Varity			15	3403	47⅞	46¼	46⅜	-1⅝
36⅞	26¾	Vencor			100	1862	27¾	27	27⅛	
14⅛	12¾	Vesta	1.08	8.3	0	19	13⅛	13	13	-⅛
76	68½	VirGSPS.80	5.00	7.3		238	68½	d68½	68½	
32⅞	19⅞	Vishay Int			11	1606	20⅛	19⅝	[illegible]	
36¾	24¾	Viva Inc			25	714	29⅞	28½	29⅝	+⅛
40⅞	32⅛	Vodafone	[illegible]	1.9	29	1836	35⅝	35⅜	35½	-⅛
11½	8⅞	Volunteer			11	39	9⅞	9¾	9¾	
38¾	25	Von Cos			27	649	35⅝	34⅞	35⅜	+⅝
41½	35⅞	Vornado	2.44	5.9	17	19	41⅛	41	41½	+⅛
58⅞	53⅛	VulcanM	1.68	2.9	12	67	57⅞	57	57⅛	-⅛
		- W -								
24⅝	16½	WMS Ind			23	1167	22⅝	21⅞	21⅞	-⅛
32⅞	26⅝	WPL Holdin	1.97	6.1	14	65	32⅛	31⅝	32⅛	+⅝
28	17⅞	Wabash Inc			6	1324	20¼	19⅝	19¾	-½
46⅞	40⅞	Wachov	1.44	3.4	12	1091	42⅝	41⅞	42½	+⅛

[illegible]

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. cld-called. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Trading suspended.

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AMEX PRICES

4 pm close July 12

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NMR		6	61	10⅝	10½	10½	
Pegasus G	0.10	125	900	12⅞	12⅝	12⅝	-⅛
Penlnd	0.40	1	66	11⅛	10⅞	11	-⅛
Pittway A	0.33	13	35	42⅝	41⅜	41½	-1⅝
PMC	1.12	11	88	12⅝	12⅛	12⅝	+⅛

[illegible]

NASDAQ NATIONAL MARKET

4 pm close July 12

[illegible]

FT GUIDE TO THE WEEK

MONDAY 15

Clinton poised for Cuba bill

Bill Clinton, the US president, is expected to give the go-ahead for the enforcement on August 1 of the most controversial part of the so-called Helms-Burton law, which seeks to curb foreign investment in Cuba in the face of broad international condemnation. He would do this by not exercising a waiver clause delaying for six months the implementation of Title III, under which US claimants of properties nationalised in Cuba would be able to sue foreign firms judged to be "trafficking" in them. Most analysts believe Mr Clinton, in an election year, will not exercise the waiver to avoid being accused by Republican opponents of being "soft" on communist Cuba.

Dalai Lama visits Britain

The Dalai Lama visits London at the invitation of the Tibet Society and 27 UK Buddhist organisations. Britain was apparently asked by China to cancel the trip but refused. China has been particularly touchy about the Dalai Lama, the Tibetan spiritual leader and Nobel peace prize winner, since last month – when Germany's Bundestag adopted a resolution condemning Chinese human rights abuses in Tibet. China's official media has accused the Dalai Lama of trying to "split the motherland".

Clinton's successor resigns

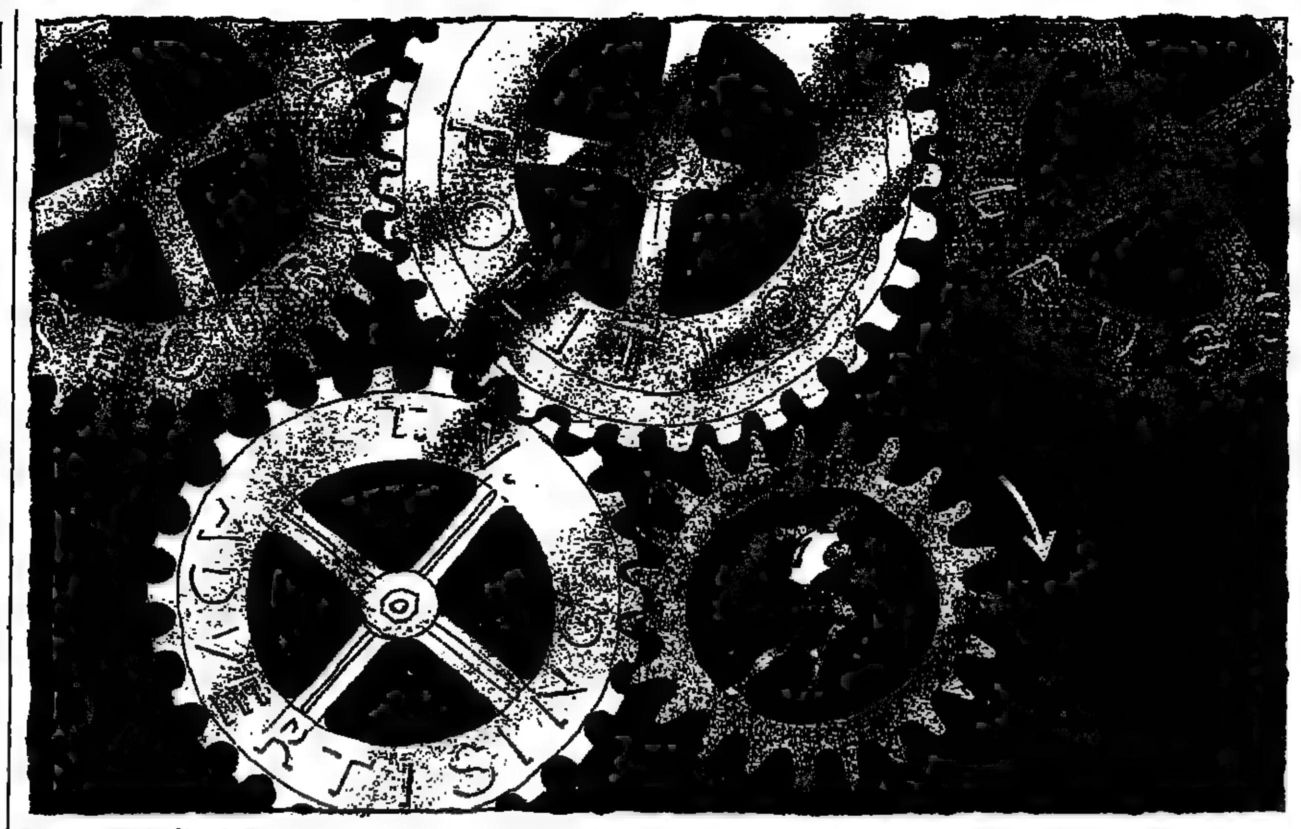
Jim Guy Tucker, who succeeded Bill Clinton, the US president, as governor of Arkansas, resigns his office following his conviction – along with two of Mr Clinton's former partners in the Whitewater property venture – for fraud. During the trial of Mr Tucker, who is appealing, the president testified as a defence witness. Meanwhile Bruce Lindsey, one of Mr Clinton's closest aides, has been named a co-conspirator in the trial of two Arkansas bankers accused of illegally using bank funds to reimburse themselves for contributions to political candidates – including Mr Clinton.

Lloyd's holds annual meeting

Lloyd's of London, the insurance market fighting to make a comeback after making losses of more than £8bn, holds its annual meeting at the Royal Festival Hall in London. It seeks support for its recovery plan, which includes a £3.1bn out-of-court settlement offer to Names. There will also be an extraordinary meeting called by some Names – individuals whose assets have traditionally supported the market – who want extra benefits for the hardest hit. Lloyd's hopes the rebel motions will be defeated easily and that it will win strong backing for the plan, which Names would have until August 28 to accept.

US/Albanian manoeuvres

US and Albanian troops start a week of joint military manoeuvres code-named "Peaceful Eagle". Albania, whose new government was sworn in last week after controversial elections, was the first country to join Nato's Partnership for Peace. It has been a base for US reconnaissance flights over Bosnia during the last few years of war and ethnic cleansing in former Yugoslavia. The US sees Albania as a stabilising force in a volatile region.



Running rings: the Olympic Games, opening in Atlanta on Friday, are set to break several records – including cash flows generated for broadcasters

EU tackles Turkey deadlock

EU foreign ministers try to break the deadlock over aid to Turkey caused by a longstanding Greek veto. Ministers will also assess progress on a bilateral accord with Switzerland, the Middle East peace process and human rights in Burma. In Strasbourg, the European Parliament holds a plenary session at which, on Wednesday, the Irish presidency will set out its plans for the next six months.

N Korea mission to Japan

A North Korean trade and investment mission, in co-operation with the United Nations Industrial Development Organisation, visits Japan.

FT Survey

Israel.

Public holidays

Botswana, Brunei, Puerto Rico.

TUESDAY 16

MPs in UK armed forces vote

British MPs have their first and only chance to vote on the government's £1.5bn privatisation of 58,000 armed forces married quarters. The opposition Labour party is holding a debate on the sale, which it claims is a bad deal for the taxpayer and for families of serving personnel. More than 20 Conservative MPs also have reservations about the measure. Although the vote is not binding on the government, a defeat could force ministers to make concessions which would make the sale less attractive to the four shortlisted private-sector bidders.

India police report on bribes

India's Central Bureau of Investigation, the country's equivalent of the FBI, presents a progress report into the so-called *hawala* political bribes scandal, in which 25 top politicians from all parties – including seven former Congress party ministers – have been charged. Last week two state governors were also charged in India's broadest corruption scandal since independence. It revolves around alleged payments by Surendra Jain, a Delhi-based businessman. The latest charged, the state governors and a former minister, appear in court this week.

FT Survey

Lebanon.

Public holiday

Botswana.

WEDNESDAY 17

Kohl in official Austria trip

Helmut Kohl's biannual holidays in Austria's Salzburg region may have become a feature of the German political calendar, but the chancellor is going on his first official state visit there since 1984. The trip includes a stop at the Hungarian border to thank residents who helped the first East Germans escaping eastern Europe through the barbed wire fence.

British shadow cabinet votes

MPs from Britain's Labour party vote on whether to bring the annual shadow cabinet elections forward to July 24, instead of the usual date in October. Tony Blair, party leader, wants the contest now in order to avoid distractions in the run-up to a general election. He is likely to get his way. Some Labour MPs want to use the election to punish Harriet Harman, shadow health secretary, for sending her son to a grammar school. Mr Blair has persuaded a number of bright young allies not to stand – in the hope that Ms Harman will retain her place.

UN Hiroshima conference

The United Nations opens a conference on nuclear and conventional weapon disarmament in Hiroshima, the target of the world's first atom bomb attack 51 years ago. The opening session will be addressed by Yukihiko Ikeda, the Japanese foreign minister (to July 19).

US/Japan insurance talks

The US and Japan open two days of talks in Tokyo in an attempt to resolve a dispute over access to the Japanese insurance market before the end of the month. Unusually, the US is anxious about the consequences of a proposed Japanese deregulation measure – rather than playing its habitual role of calling for fewer government regulations.

Lisbon in Portuguese push

The Community of Portuguese Language Countries (CPLP), embracing more than 170m people, is launched in Lisbon. The CPLP aims to endow Angola, Brazil, Cape Verde, Guinea Bissau, Mozambique, Portugal and Sao Tome and Principe with more cultural, diplomatic and economic weight than they might have individually. An equally important motive appears to be an effort by Portugal to assert a cultural influence increasingly under threat in its former colonies. Last year, for example, Mozambique became a full member of the English-speaking Commonwealth.

Public holidays

Iraq, South Korea, Maldives.

THURSDAY 18

Tube strike in London

A complete shutdown of the London Underground is expected when Tube train drivers who are members of the RMT transport union and Aslef, the drivers' union, go on strike for 24 hours. Some trains have run in the previous strikes because Aslef members make up only three-quarters of the Tube workforce. Now the two groups intend to co-ordinate. Eight more one-day strikes are planned if talks with management fail. The drivers want a one-hour cut in their basic working week and say London Transport has reneged on a deal. Management says the reduction was linked to productivity improvements that have not materialised.

Greenspan unveils targets

Alan Greenspan, US Federal Reserve chairman, delivers his half-yearly "Humphrey Hawkins" monetary testimony to Congress. He will unveil the Fed's latest economic projections and monetary targets. Investors will be listening closely for hints about the outlook for short-term interest rates. Following signs of accelerating economic growth, many analysts expect the Fed to raise rates at its August 20 meeting, if not before. Fears of higher rates have already prompted sharp falls in US share and bond prices.

UN global warning protocol

Environment ministers from about 150 countries meet in Geneva to discuss a UN protocol on climate change, specifying commitments to combat global warming.

Golf

British Open championship, Royal Lytham & St Anne's (to July 21).

FT Survey

Inward Investment into the UK.

Public holidays

Maldives, Uruguay.

FRIDAY 19

Asean meets in Jakarta

Ministers and officials from the Association of South-east Asian Nations (Asean) gather in Jakarta. The focus will be on the efforts of the members – Indonesia, Malaysia, Singapore, Thailand, Brunei, Vietnam and the Philippines – to liberalise trade and lower tariffs. Indonesia's controversial steps to increase tariff protection for its petrochemicals and automobile industries are likely to be raised (to July 21).

Olympic Games start in US

One hundred years after their revival in Athens, the Olympic Games open in Atlanta, Georgia, US. On view: a record 10,788 competitors in 26 sports. Big talking point: will China, which is desperate to host the Olympics early next century, edge closer to the top of the medal winners' table? Big problem: Atlanta's ferociously humid summer weather, which is expected to penalise many teams, including northern European ones. Big pay-off: record Olympic cash flows, especially for television broadcasters (to Aug 4).

UK chess prodigy tipped

Luke McShane, 12, the UK chess prodigy, tries to achieve Britain's youngest international master score at the Smith & Williamson international near Guildford (to July 29).

FT Survey

Japan; Quarterly Review of Personal Finance (UK only).

Public holiday

Nicaragua.

SATURDAY 20

Japan sets 200-mile zone

Japan implements a 200-mile economic zone around its shores, under the UN Convention of the Law of the Sea. This highlights two territorial disputes over islands included in the zone which are jointly claimed with China (Senkaku or Diaoyutai) and South Korea (Takeshima or Tokdo). Both are in the middle of rich fishing grounds. All sides have set aside the squabble – for the moment – and are instead discussing fishing rights.

FT Survey

Quarterly Review of Personal Finance (UK only).

Public holidays

Colombia, Japan.

SUNDAY 21

Nato exercises in Black Sea

Ships and navy infantry from nine Nato and Partnership for Peace countries stage exercises in the Black Sea port of Constanta, Romania.

Compiled by Simon Strong.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: Japanese industrial production is expected to have risen again in May.

Tuesday: US consumer price inflation is expected to have remained low last month. US industrial production is forecast to have risen again. The UK public sector borrowing requirement last month is expected to be smaller than in the same month last year. Figures from the British Retail Consortium will give the latest snapshot of conditions among Britain's biggest retailers.

Wednesday: UK labour market data could show another fall in unemployment but average earnings growth is expected to remain the same. The minutes of the June 5 monetary meeting will show whether Mr Eddie George, governor of the Bank of England, agreed to the quarter point interest rate cut which followed the meeting.

Thursday: UK M4 money supply growth is forecast to have slowed slightly last month.

Friday: The German Ifo business survey and German M3 money supply figures, expected towards the end of this week, will give an indication of industry conditions and inflationary pressures.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	May industrial production†		2.0%
July 15	Norway	June trade NKrb		7.2
	US	May business inventories	-0.1%	0.4%
	UK	Brit Retail Consortium survey		6.2%
Tues	France	Q1 gross domestic product final***	1.2%	1.2%
July 16	UK	June pub sector borrowing req £b	3.0	3.2
	US	June consumer price index	0.2%	0.3%
	US	June con pr ind ex-food & energy	0.2%	0.2%
	Canada	May manufacturing new orders		2.7%
	Canada	May manufacturing shipments*		2.2%
	Canada	May manufacturing I-S ratio		1.40
	US	June industrial production	0.4%	0.7%
	US	June capacity utilisation	83.3%	83.2%
	US	June real earnings	0.2%	-0.1%
	Canada	May wage settlement increase**		1.3%
Wed	Italy	May industrial production†**	-1.7%	4.6%
July 17	UK	June unemployment	-10.0k	-15k
	UK	May average earnings	3.75	3.75%
	UK	May unit wages 3M**	3.30	3.6%
	US	June housing starts	1.45m	1.43m
	US	June building permits		1.43m
	Japan	June trade bal (cust clrd) nsa†	Y537bn	Y990bn
	Italy	May producer price index**	1.7%	2.6%
Thurs	Italy	May wholesale price index**	4.0%	4.5%
July 18	Japan	July wholesale pr ind (1st 10 days)		n/a
	UK	June M4*	0.7%	0.8%
	UK	June M4**	10.0%	10.0%
	UK	June M4 lending	£5.5bn	£5.8bn
	UK	June bld soc net new cmtmnts £b	4.0	3.5
	UK	June motor vehicle production		n/a
	Japan	June money supply (M2+CD)**	3.5%	3.3%
	Japan	June broad liquidity**		3.9%
	Sweden	May current account	SKr3.3bn	SKr5.4bn
	US	May trade: goods and services	-$8.3bn	-$8.8bn
	US	May good and ser exp (BOP)	$70.2bn	$69.9bn
	US	May good and ser imp (BOP)	$78.5bn	$78.6bn
	Canada	May merchandise exports†*		0.8%
	Canada	May merchandise imports†*		1.0
	Canada	May merchandise trade surplus		C$2.6bn
Fri	Japan	May overall pers consum expend**	0.0%	-0.7%
July 19	Japan	May pers consum exp (workers)**		0.7%
	Japan	May income (workers)		2.8%
During the week...				
	Germany	June M3 from Q4 95 base	9.7%	10.5%
	Germany	June M3 from Q4 94 base	4.9%	4.9%
	Germany	June privatised lending (6m ann)	7.9%	7.9%
	Germany	June wholesale price index*	0.0%	0.3%
	Germany	June prod price ind, pan-Ger*	0.0%	0.0%
	Germany	June prod price ind, pan-Ger**	-0.6%	-0.5%

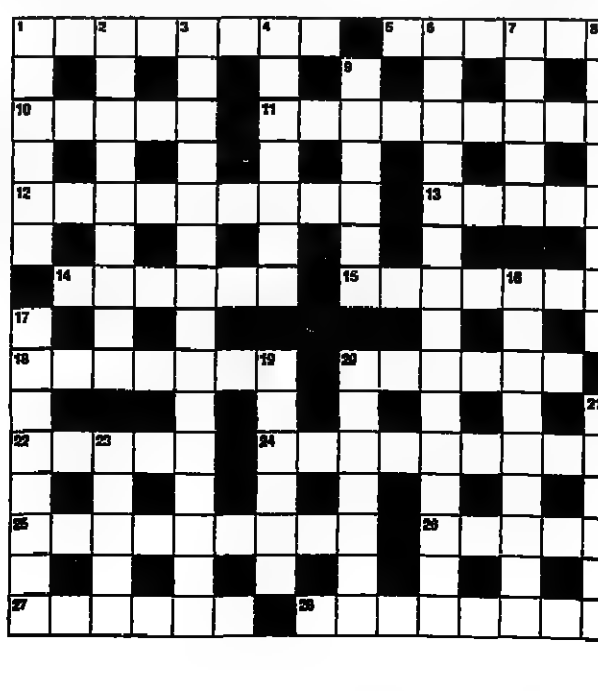
*mth on mth. **yr on yr ***qtr on qtr †seas adjust — *Statistics, courtesy MMS International.*

ACROSS

1 Sprinkled rest round water filter (8)
5 Engineer names American count (6)
10 Turned up in time for data to go in computer (5)
11 Short patient wants paper carrier (9)
12 A dead bird's brought in every second (9)
13 Winning article by guide (5)
14 Idle Jack's first to be fired (6)
15 In contact, fully briefed and diplomatic (7)
18 Shopkeeper's companion is met on tour (7)
20 Ruler not originally included in cost (6)
22 Outlaw is back in dock (5)
24 Tests girl in leather works (9)
25 Prunes with oil mixture aversion! (9)
26 Best of the Spanish first elevens, it's admitted (5)
27 During holidays redhead wanders off (6)
28 Robe or undershirt chaps try first (8)

DOWN

1 Coiled pairs twisted onto end of roll (6)
2 Reliable salesman used top food (9)
3 From Bury race friend around the world (15)
4 Half of them stay to hug (7)
6 Freedom to give me the nine francs change (15)
7 Ask at every shop for some fish (5)
8 Expedition I left and said why, without delay (8)
9 Dreadful court has lost our order (6)
16 Copy Bill and smile if running round (9)
17 Beer and cigs could be a danger to sailors (8)
19 Tasty morsel a bird pinched (6)
20 Penalty for leading zoologist leaving Cornish town (7)
21 View of space explosion last night (6)
23 Excellent for us to climb through (5)



MONDAY PRIZE CROSSWORD

No.9,120 Set by GRIFFIN

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday July 25, marked Monday Crossword 9,120 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 29. Please allow 28 days for delivery of prizes.

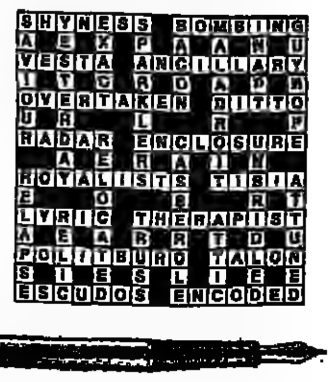
Name..

Address..

Winners 9,108

K.M. Barnes, Hadley Wood, Herts
Mrs E. George, Shirley, Croydon
L. Green, Hoo, Kent
M.J. Hughes, London N1
P. Silvester, Stilton, Peterborough
R. Sundaram, Arlington, Massachusetts, USA

Solution 9,108



JOTTER PAD

BUSINESS EDUCATION

Della Bradshaw asks whether an MBA course can be the solution for redundant managers

Redundancy pays

Colin Love started 1994 as the UK managing director of Betterware, the direct sales organisation. He ended the year as a student, studying for a master of business administration degree following redundancy.

Having been a self-confessed "corporate fat cat" for the previous 10 years, Love had to toss aside the pinstripes and learn how to use a personal computer and make the tea.

The experience was clearly a cathartic one for Love. He admits that for the first couple of weeks on the course at the management school at Imperial College he "may have been just filling time".

But by Christmas there were two good job offers on the table from direct sales companies and Love realised that his priority was to finish the course, which he went on to do, graduating in September 1995. "I had got into my own re-engineering," he claims.

Today he is a consultant, advising direct sales companies on the impact of information technology on their businesses, and a student working for his doctoral degree. He also does some teaching on marketing at Imperial, where he is still a student.

And, he says, "I've almost become a nice guy, again," having sloughed off the corporate culture which, he says, valued car parking places, offices and status rather than people. "It gave me a chance to strip away the veneer."

While the shock of being made redundant can cause many former employees to disappear into a frenzy of job-hunting, others see the split as an opportunity to take stock of their careers.

Frances Cook, managing director of Sanders & Sidney, the outplacement agency which counsels the recently redundant on future opportunities, believes individuals should only embark on MBAs if they have a clear view of what they can achieve through it and should not just see it as a time-filler.

"You can't see it as a crutch or a door-opener. You have to do it for personal development," she says.

The nightmare scenario, of spending all your redundancy money on an MBA course only to discover that no-one wants to employ you at the end of it, is unlikely to occur, says Cook. Potential employees, she says, no longer worry about redundancy when they see it written on a curriculum vitae. And they treat all MBA graduates as equals.

For the business schools, redundant managers are proving a sound source of revenues with, in some cases, one third of the full-time MBA courses filled with redundant managers.

Studying for a full-time MBA in the UK is likely to cost around £30,000 in fees and living expenses. Nonetheless, Love advises action rather than caution. "If someone has a redundancy package and they can afford to live for a year on it they should do what I did," he recommends.

However, with most MBA graduates taking several months to get a job after graduation, he acknowledges that "it is at the end of the course where the reality comes out".

For those without an adequate redundancy package Love believes money is still not a big hurdle – loans are available to potential students with the correct experience and qualifications. "The big issue is being realistic about what it entails. I cancelled Christmas and Easter. I took a laptop with me to Portugal for the summer holidays."

One problem for those made redundant from many of the larger organisations is that the in-house training they receive often overlaps with the management techniques taught on MBA courses. Potentially, this could make the degree course redundant, says David Mollan, lecturer in marketing and entrepreneurship at Imperial.

Helen Fargin, who studied for an MBA at Oxford Brookes University, after being made redundant by a large American corporation, believes she received excellent management training within her company, but that the MBA brought further value.

"I didn't realise until I went on the MBA how good my grounding was," she says. "But although the training was excellent it didn't tell me about other parts of the business because I didn't need to know. The MBA put everything into perspective. I could see the strategic angle."

For Fargin, who had 14 years of management expertise but no undergraduate degree, the MBA qualification gave both a well-recognised qualification and vast boost to morale. "When I was made redundant I suffered a terrible drop in confidence and morale. The MBA helped me get over that."

NEWS FROM CAMPUS

When courses are not worth the money

British industry is spending more than £2bn a year on management training, but how effective is it?

Many courses that bring bad value for money are based on "psycho-babble", according to Stephen Williams, author of the latest report from the Social Affairs Unit, a right-wing think tank, in London.

The report, A Balloon Waiting to Burst? – Pseudomanagement Training, says that good management courses treat management as a skill or craft, not as a pseudo-science. Good management courses, says Williams, encourage discussion and constructive disagreement and have follow-up sessions once the course is finished. Bad courses attempt to enhance self-esteem, through role-playing and simulation. *Social Affairs Unit: London, (0)171 436 8530.*

Shining light for human resources

European human resource managers can now get together with their peers and acknowledged experts in the field to discuss the latest personnel issues and techniques.

The series of meetings and presentations is being organised by CSC Index, which already runs a similar service in the US.

Index Beacon, as it is called, will consider best practice in the HR industry and the latest thinking in change management. The topic for 1996 is "The new HR leadership agenda". *CSC: UK, (0)171 344 7800.*

MBA graduates are real high-flyers

Is it a bird? Is it a plane? No, it's an MBA graduate. While other business schools count the number of graduates who gain distinctions, jobs in merchant banking and so on, Warwick Business School believes it has scored a record with the number of MBA students who can fly aircraft.

At least 10 of this year's MBA graduates are as much at home in the air as the boardroom, be it flying aircraft, gliders or helicopters. To keep them in line the group also boasts an air traffic controller. *Warwick: UK, (0)1203 524124.*

Why Britain's élite lags the world

Keith Wheatley describes a sub-plot to the Games-in-the-oven that start this week

By Friday, yours truly will be sweltering in Atlanta along with 16,999 other media representatives, poised to report the winnings and losings at the Atlanta Olympic Games – the centennial games of the modern era, 100 years after the Olympics' revival in Athens in 1896.

Sport is nothing if not nationalist, and my British heart will beat a little faster if and when Steven Redgrave takes his fourth rowing gold medal. Superficially, the interest of the British contingent will focus on the medal haul, but there is an interesting *sub-plot at work* which is likely to have a crucial impact on British sport for decades to come.

UK sports minister Ian Sproat will be in Atlanta and is likely to use his Olympic visit to unveil the government's delayed prospectus *for the British Academy of Sport*. Officially, the government is still seeking views, but insiders say that Prime Minister John Major has put the scheme on the ultimate fast-track.

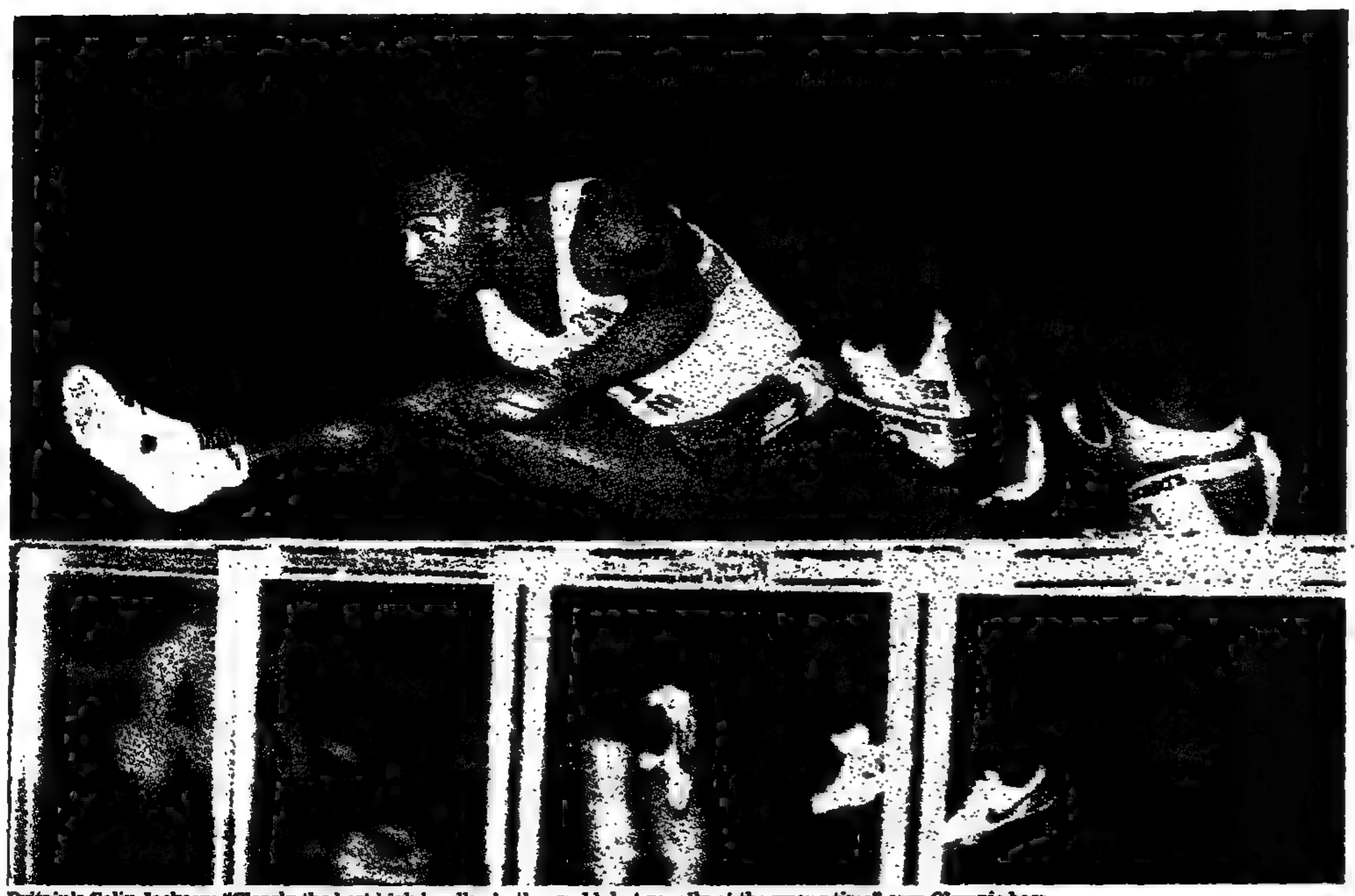
"With an election inside the next 12 months I think we're certain to see the prime minister laying the academy's foundation stone," said a Westminster source close to the action.

When vested interests in the sports establishment tried to press, instead, for an upgrading of the various single-sport centres of excellence, Major was dismayed.

"This was to be a big idea, and Major is a shrewd enough politician *to know that you don't pull head*lines for going down to Lilleshall [the English FA's football centre] and putting a new coat of paint on the five-a-side hall," said my informant.

A disappointment in Atlanta for British *sport would certainly* strengthen the hand of those who claim that the academy is desperately needed. After all, the whole scheme is modelled on the Australian Institute of Sport, which was the Aussies' response to their abysmal performance in the 1976 Montreal Olympics.

"Most British *competitors* that come away from Atlanta with medals will have done it despite the system rather than because of it," admits Craig Reedie, chairman of the British Olympic Association and, as a relatively newly-admitted *member of the International Olym*pic Committee, probably the most influential official in British sport.



Britain's Colin Jackson: "Clearly the best high-hurdler in the world, but usually at the wrong time" says Olympic boss

"The rest of the world organises its élite sport rather better than the UK," he added. Reedie is unashamedly keen that the BOA should be the project leader when, rather than if, the academy gets a green light *from the government*.

"This is a natural rôle for us," he says, "since we're right at the front end with the teams and individuals who are competing at gold-medal standard. We couldn't deliver sports in schools and local clubs, it's not our rôle. But this is our natural territory."

Reedie is cautious about Britain's chances of enjoying a medal bonanza in Atlanta. This effervescent rather than dour Scotsman, from the temperate climes of Glasgow, says that almost every team from northern Europe will struggle *to perform at its peak in the steamy* oven that is mid-summer Georgia.

Since 1993 the BOA has been running a semi-permanent training camp at Talahassee in Florida. "In the past three years we've sent almost 700 athletes through it and almost entirely for one reason," says Reedie. "It's to give them some *practical idea of how hot and humid* it's going to be. All the charts and graphs in the world can't teach you what it actually feels like."

"British athletes in all the endurance events are going to really struggle. It could stop Britain winning medals *that seem* to be on offer on the basis of previous performances. You mustn't allow your heart to rule your head, which, as Euro 96 [the recent European soccer finals] showed, is something we're very good at in Britain."

For the record, here is Reedie's quick run-through on three of *Britain's main gold medal pros*pects. Linford Christie: "How to make your travel plans lead the TV news." Colin Jackson: "Clearly the best high-hurdler in the world, but usually at the wrong time." Steven Redgrave: "He's always known that there would be another chance. That might not be true this time."

His remarks show a cool perceptiveness that would have made Reedie an ideal sports journalist. In fact, he is a senior pensions advisor in a Scottish financial services company.

His shift to the highest echelons of international sports administration came via a long stint as head of world badminton, leading it into the Olympics and helping promote the sport's phenomenal growth during the past 20 years.

Atlanta will be Reedie's first Olympics as a member of the IOC. *Clearly he has the attention of Juan* Antonio Samaranch, the IOC's president, and insiders in Lausanne say that Reedie played a notable rôle in keeping future Olympics in the grasp of the BBC and other European public service broadcasters.

That Reedie understands the new age of broadcasting is shown by an *innovative deal he has just struck* with the BBC. In the four years leading up to the Sydney Olympics in 2000 the BOA will make 16 programmes for transmission by the BBC about the build-up to the games of 2000.

"It will enable us to highlight future stars, promote lesser known sports and give added value to our sponsors," says Reedie.

Things have come a long way since it was the association's principal job to sell enough raffle tickets to pay competitors' fares to the games. One way and another, it is *fair to surmise that British sports* administration could look very different after Atlanta.

A footbridge to the future

Colin Amery on the FT's design contest for a Thames-spanning link

An elegant new footbridge across London's River *Thames* is a wonderful idea to mark the *millennium*. Today, the Financial Times announces its design competition for a remarkable project: a pedestrian bridge to link the City of London from the steps of St Paul's cathedral to the London borough of Southwark's proposed new Tate Gallery of modern art at Bankside, on the other side of the river.

The FT's interest initially sprang from the fact that its own London headquarters are on the south bank of the Thames in Southwark. The FT's close neighbours are the new Globe Theatre, nearing completion, and the proposed Tate extension in the converted former Bankside power station.

Across the river is the full majesty of the City of London, and from Bankside itself you have the finest view there *is of the full* length of St Paul's. Bankside marks almost the spot where Sir Christopher Wren lived while his cathedral was being built. He saw it then as a great vessel surrounded by a sea of spires and towers. Today he would scarcely recognise the view, but his cathedral *is still dominant*. The fascinating thing about the siting of the enormous brick power station at Bankside is that its 325ft chimney is precisely on axis with the dome of St Paul's.

Bankside power station was completed *as recently as 1960. Its* architect was the great Sir Giles Gilbert Scott, the designer of Liverpool's Anglican cathedral. Originally built to burn oil to produce London's electricity, the power station soon became redundant and its rescue by the Tate Gallery could well result in one of the *most spectacular contempo*rary art galleries in Europe.

There are many reasons for a new bridge. Southwark, as a local authority, has had to rejuvenate a riverside that had relied on shipping and warehousing and now presents an opportunity for commercial and residential *development* on prime sites that will help subsidise renewal of the rest of the populous borough. *Employment* is a priority, and improving both the attractions and the accessibility of Southwark will help create jobs. The City of London, too, will benefit from the proposed new link to the south side of the river.

It is important that it is a *pedestrian-only* bridge. Not even bicycles will be allowed to cross it. There is no other pedestrian bridge over the Thames in central London. It will be a superb sensation to walk up and over the great arched structure and contemplate *the life of the river* without the sight or sound of a car. Imagine the silence . . . it may even be possible to hear the gentle sound of the tide and watch the moon rise over the City. The new bridge could have something of the simple character *of many of* Venice's bridges.

The competition has deliberately been thrown open to artists as well as architects and engineers in the hope that a brilliant idea from an artist could then be developed by a design and technical team. Perhaps a great arc of a *rainbow should cross the Thames*, brilliantly illuminated at night, dancing with lasers and holograms.

The possibilities are infinite, and the panel of judges represents a broad range of views. The millennium deserves an inspirational idea for London. It is to be hoped *the FT's competition* unlocks a treasury of imaginative ideas.

THE WEEK AHEAD

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Jupiter Geared Capital & Income Trust 1999, Knightsbridge House, 197 Knightsbridge, S.W., 11.30
Norcros, Chartered Accountants Hall, Moorgate Place, E.C., 11.00
Powergen, International Conventions Centre, Broad Street, Birmingham, 11.00
Victoria Carpet Holdings, Green Street, Kidderminster, Worcester, 11.00
BOARD MEETINGS:
Finals:
Apta Healthcare
Eidos
Ellis & Everard
Wessex Trust
Interims:
Shandwick

■ TOMORROW
COMPANY MEETINGS:
Airflow Streamlines, The Northampton Moathouse, Silver Street, Northampton, 12.00
British Airways, Barbican Centre, Silk Street, E.C., 11.00
BTG, London Metropole Hotel, 225 Edgware Road, W., 11.00
Cohen (A), Clareville Ho., 25, Oxendon St. SW., 12.00
Courtaulds, London Marriot Hotel, W., 10.45
German Inv Trust, Hill Samuel Asset Management, 10 Fleet Place, E.C., 12.00
Great Portland Estates, Cafe Royal, Regent Steet, W., 10.30
Invesco Asia Trust, 11 Devonshire Square, E.C., 12.00
Johnson Matthey, The National Gallery, Trafalgar Square, W.C., 12.00
NSM, 30 Furnival Street, E.C., 11.00
Oceana Consolidated Company, 25 Luke Street, E.C., 4.30
Oriel Group, Gouldens, Clem House, 19-21 Tudor Street, E.C., 12.00
Porter Chadburn, Durrants Hotel, 26 George Street, W., 2.00
Rolfe & Nolan, Chartered Accountants Hall, Moorgate Place, E.C., 12.00
TLG, City Presentation Centre, 4 Chiswell Street, Finsbury Square, E.C., 10.00
Wyndeham Press, 135 Bishopsgate, E.C., 12.00
Wynnstay Properties, The Royal Automobile Club, 89 Pall Mall, S.W., 12.00
Young & Co's Brewery, Wandsworth Town Hall, Wandsworth High Street, S.W., 10.30
BOARD MEETINGS:
Finals:
Inv. Trusts of Inv Trusts
Moorgate Inv Tst
Parkland Group
Reliance Security
Interims:
Amicable Smaller
Waterfall Holdings

■ WEDNESDAY July 17
COMPANY MEETINGS:
Acal, Plaisterers Hall, 1 London Wall, E.C., 12.00
Ascot, Cafe Royal, Regent Street, W., 11.00
Cullens, Carlton House, Robert Adam Street, W., 10.30
Expo International, Founders Hall, No. 1 Cloth Fair, E.C., 10.00
Hicking Pentecost, 19 Stanwell Road, Penarth, 12.00
Jarvis Porter, Stationers Hall, Ave Maria Lane, E.C., 12.00
London Insurance Markets Inv Trust, 6 Alie Street, E.1, 12.00
PEX, Founders Court, Lothbury, E.C., 11.30
BOARD MEETINGS:
Finals:
Bulmer Holdings
First Technology
Media Business Group
Nobo Group
Smith (David S)
Worthington Group
Interims:
Lowe (Robert H.)
Rights & Issues Inv. Trust

■ THURSDAY July 18
COMPANY MEETINGS:
Amberley Group, Southway Drive, North Common, Warmley, Bristol, 12.00
BAA, QE2 Conference Centre, Broad Sanctuary, Westminster, S.W., 11.15
British Inv Trust, Donaldson House, 97 Haymarket Terrace, Edinburgh, 12.00
British Telecom, Newcastle Arena, Arena Way, Newcastle-Upon-Tyne, 2.00
Capitol Group, Mint House, 77 Mansell Street, E., 10.00
EMAP, The Merchant Centre, 1 New Street Square E.C., 12.00
Gerrard & National Holdings, Cannon Bridge, 25 Dowgate Hill, E.C., 12.00
Gresham House, 30 Elder Street, E.1., 10.00
Liberty, Connaught Rooms, Great Queen Street, W.C., 12.00
London Merchant Securities, Carlton House, 33 Robert Adams Street, W., 12.00
Meyer International, Waldorf Hotel, Aldwych, W.C., 12.00
Moorgate Smaller Companies Income Trust, 3 Finsbury Avenue, E.C., 3.30
Plysu, Brewery Conference Centre, Chiswell Street, E.C., 12.15
Southnews, 89-91 Eastworth Road, Chertsey, Surrey, 12.00
Stoddard Sekers, Glenpatrick Road, Elderslie, Renfrewshire, Scotland, 12.30
BOARD MEETINGS:
Finals:
Aim Group
Edinburgh Japan Trust
Elbief
Neill Clerk Group
TBI
Trifast

■ FRIDAY July 19
COMPANY MEETINGS:
Amersham International, The Royal Society of Medicine, 1 Wimpole Street, W., 11.30
Caffyns, Hydro Hotel, Mount Rd., Eastbourne, 3.00
Danka Business Systems, Lanesborough Hotel, Lanesborough Pl. S.W., 11.00
Drummond Group, Stakis Bradford Hotel, Bradford, 10.30
London Clubs International, Six Hamilton Place, W., 10.15
Protean, 135 Bishopsgate, E.C., 11.45
BOARD MEETINGS:
Finals:
Crest Packaging
Hansom Group
Rainford Group
Interims:
Gartmore Emerging Pacific
M&G Dual Trust

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
ASH Cap Fin (Jersey) 9½% Cap Bd 2006 4.75p
Allied Irish Banks 10% Bd 1996 IR£50.0
American Medical 9¾% Un Ln 2011 £4.9375
BCE C$0.68
Barclays Prop Index Certs 1997 £1.87
Do Certs 1998 £1.87
Do 12% Un Cap Ln 2010 £6.0
Barlow R0.38
Batt Bros 1.75p
Bradford & Bingley Bldg Scty FRN 1997 £162.72
Brazilian Smaller Co's Inv Tst $0.016029
British Gas Int Fin 6¼% Gtd Bd 2003 $62.50
Care UK 0.33p
Chester Asset Rec No 1 Asset Bckd FRN 2000 £1582.04
Churchbury Estates 4.2% Cm Pf 2.1p
Daras Estates 10¼% 1st Mtg Db 2012 £5.125
DKB Int Fxd-FRN 2004 $29635.74
Edinburgh Inv Tst 3¾% Db 1998 £1.875
Essex & Suffolk Water Vtg A 43.4p
Do N/Vtg B 43.4p
F & C Special Utilities Inv Tst 1.4p
Do Package Units 1.4p
Do S 0.9p
Forte FRN 1998 £1688.82
Goldsborough Healthcare 1.32p
Govett Strategic Inv Tst 10⅜% Db 2016 £5.1875
Helical Bar Cv Pf 2.625p
High Inc Tst 1.5p
Hydro-Quebec FRN Ser IN 1999 $13.99
Inco 15⅞% Un Ln 2006 £79.75
Irish Permanent 8⅝% Bd 2004 IR£4.21607
Johnson Fry Utilities Tst 1.78p
Johnson Fry Second Utilities Tst 1.72p
Jupiter Extra Inc Tst 1.98875p
Kobe 6⅜% Gtd Bd 2003 $318.75
Land Sec 18.9p
Lasmo 9⅝% Cm Pf 1996 4.8125p
Manitoba 9¾% Retractable Db Jul 1998 C$98.75
Mitsubishi Chem (UK) 5¾% Nts 1998 $57500.0
Morgan (JP) $0.81
Motorola $0.12
Murray Int Tst 3.9% Cm Pf 1.95p
Nat West Irish Smaller Co's Inv 0.675p
North Surrey Water 4% Db £2.0
Do 4¼% Db £2.125
Do 5¼% Db £2.625
Occidental Petroleum $0.25
Pacific Gas & Elec $0.49
Perkins Foods Cv Pf 2005 4p
Prowting 1.9p
Quaker Oats $0.285
Quebec Central Rlwy £2.50
Sanwa Australia Fin Gtd Fxd/FRN 2005 $3008.61
Seiyu 6.15% Bd 1997 Y615000.0
Smart (J) 2.5p
SmithKline Beecham 2.22p
Sonar 2 Class A Mtg Bckd FRN 2022 £153.61
Do Class B £178.05
Spandex 1.85p
Sumitomo Fin Gtd FRN 2004 $30088.13
Suzuki 4.35% Bd 1997 Y435000.0
Do 4.75% Bd 1999 Y475000.0
Sweden (Kingdom of) 11% Ln 2012 £550.0
Treasury 9½% Ln 1999 £4.75
WPP 0.865p
Westbury 4.05p
Witan Inv 3.4% Cm Pf 1.7p
Yokohama 6¼% Bd 2003 $62.50

■ TOMORROW
Abbey National Treasury 7½% Gtd Nts 1998 C$75.0
Anglo & O'seas Tst 4⅛% Cm Pf 1.575p
BP America 9¼% Gtd Nts 1999 A$92.50
Charles Sidney 1.4p
Commonwealth Bank of Australia Gtd FRN Jul 1998 $278.06
Do Jul 1999 $278.06
Do Jul 2000 $278.06
Do Und FRN Jul 1999 $285.84
European Inv Bank 9% Ln 2001 £225.0
Eyecare Products 1.1p
Fluor $0.17
Greenway 1.5p
Hongkong & Shanghai Banking Prim Cap FRN $71.88
Hozelock 3.1p
Jermyn Inv 2.5p
MCIT 9.25p
Do S 2p
Do Package Units 2p
Mercury Euro Privatisation Tst 1.2p
Nat West Bank Non-Cm Dollar Pf Ser A $0.532
Do Ser B $0.4375
Do Prim Cap FRN Ser A $287.53
Rolfe & Nolan 3.2p
Suzuki 6% Bd 1998 Y600000.0
Tate & Lyle 5.3p
Treasury 8½% Ln 2007 £4.25

■ WEDNESDAY JULY 17
Aberdeen Tst 1p
European Colour 1.425p
Gen Motors Acceptance 9% Nts Jul 1998 $450.0
German Inv Tst 0.4p
Lloyds TSB FRN 1997 £149.59
PT Telekom Indonesia Am Dep Shs Rp24.48
Quality Software 1.5p
St Paul Co's $0.44
Young & Co's Brewery A 7.85p
Do N/Vtg 7.85p

■ THURSDAY JULY 18
Archer 0.5p
Asahi Brewe FRN 1998 Y118858.0
Bradford & Bingley Bldg Scty FRN 1999 £152.29
Clyde Blowers 2.67p
Echlin $0.22
Forte FRN 1998 £1723.39
Jupiter Geared Cap & Inc Tst 1999 3.325p
Kinta Kellas M$0.05
Mitsui (Europe) Fxd/FRN 1999 Y243498.0
Scottish Inv Tst 1.96p
Tunstall 1.68p

■ FRIDAY JULY 19
Ashbourne 1.4p
Barings Gtd Cap FRN 2001 $284.38
Berisford 1.5p
Berry Birch & Noble 0.8p
Bilton 7.44p
British Inv Tst 3.3p
CFS 1p
Caffyns 6.5p
Cedardata 2.89p
Dawson 12p
Eastern Transvaal Cons R0.045
Exchequer 9¾% 1998 £4.875
Faber Prest 6p
Great Portland Estates 6.1p
Hartebeestfontein R0.67
Henderson Admin 31.5p
Highlands & Lowlands M$0.12
Jones & Shipman 4.9% Pf 3.0625p
Lonrho Fin FRN 1997 $170.63
M & G 16p
M & G Inc Inv Tst 1.05p
Do Geared Units 1.05p
Do Package Units 1.05p
NT & T 6% Nts 1999 $900.0
Old English Pub 0.67p
Reed Executive 1p
Royal Bank of Scotland 5.4p
St James's Place Capital 1.8p
Sappi R0.70
Treasury 2% IL 2006 £2.15
Whitbread 16.1p
Zandpan Gold R0.12

■ SATURDAY JULY 20
Bradford & Bingley Bldg Scty 11⅝% Perm Int Brg £581.25
British Steel 11½% Db 2016 £5.75
Dewhurst Dent 7% Un Ln 1990/2000 £1.60

Convergent evolution makes news

Louise Kehoe on a pioneering, truly integrated TV/Net service

Building 25 at Microsoft's corporate headquarters in Redmond, Washington, is being refitted – again. A year ago, this was home to the newly constructed newsroom for the Microsoft Network, a fledgling online information service. Now it is being transformed into the production HQ of "MSNBC on the Internet", a joint venture between Microsoft and NBC, the TV news subsidiary of General Electric, that will go live today (*www.msnbc.com*).

The construction work underway in Redmond reflects rapid changes in online services as traditional media converge with electronic media to create a blend of television and the Internet that is breathing new life into the concept of interactive TV.

MSNBC will combine a new 24-hour TV news channel, available at launch to 22m US cable TV subscribers, with a news supersite on the World Wide Web. A viewer might watch a report on flat-tax proposals, for example, then tap into the Web site to check whether his or her taxes would be reduced under the proposed changes, says Tom Brokaw, an NBC news anchor, who will be one of five big-name hosts on the new TV channel.

When MSNBC starts broadcasting today, it will be the first purpose-built integrated TV and Net news service. Some 100 or so journalists and editors in Redmond, responsible for the production of the MSNBC site on the Web, will collaborate closely with another 300 or so TV news colleagues based in Fort Lee, New Jersey, where MSNBC on Cable, the new TV news channel, will be produced.

However, MSNBC is not alone in combining the latest Net technology with an established TV news gathering organisation. CNN, with which MSNBC aims to compete, last week announced a partnership with PointCast, a Net broadcasting venture, to deliver CNN news to computer screens.

Another TV-Internet combination, which was also announced this month, is MTV's interactive Web site which enables pop music fans to chat online, look up the dates of pop concerts, and order CDs via the Net.

But until now, most Net news services have either been offshoots of newspapers or magazines offering "repurposed content" adapted from the original publication, or new ventures primarily geared to high-tech news.

In contrast, MSNBC starts life both as a TV channel and a Net site, and its operations are closely interwoven. For MSNBC's reporters, "news gathering for cable [TV] and the Internet will be part of their job every day", says Mark Harrington, NBC vice-president and general manager of MSNBC Cable.

"We are going to co-ordinate the TV and Internet experience in a way nobody else is doing," says Merrill Brown, acting managing editor of MSNBC's Net service. "This is not an Internet site created as an afterthought to a TV offering."

One of the short-term goals of MSNBC Cable is to attract the online generation – people in their 20s and 30s – who watch less TV news than their parents and grandparents. The new cable channel will thus include programming geared to their interests in computers and high tech. TV shows will also display Net addresses so that viewers can delve further into a subject.

The MSNBC Web site will, for example, post charts of Olympic records, a map of Atlanta's Olympic village with a virtual-reality tour of facilities, and provide biographical info on many athletes – as well as details of NBC's TV coverage of the events.

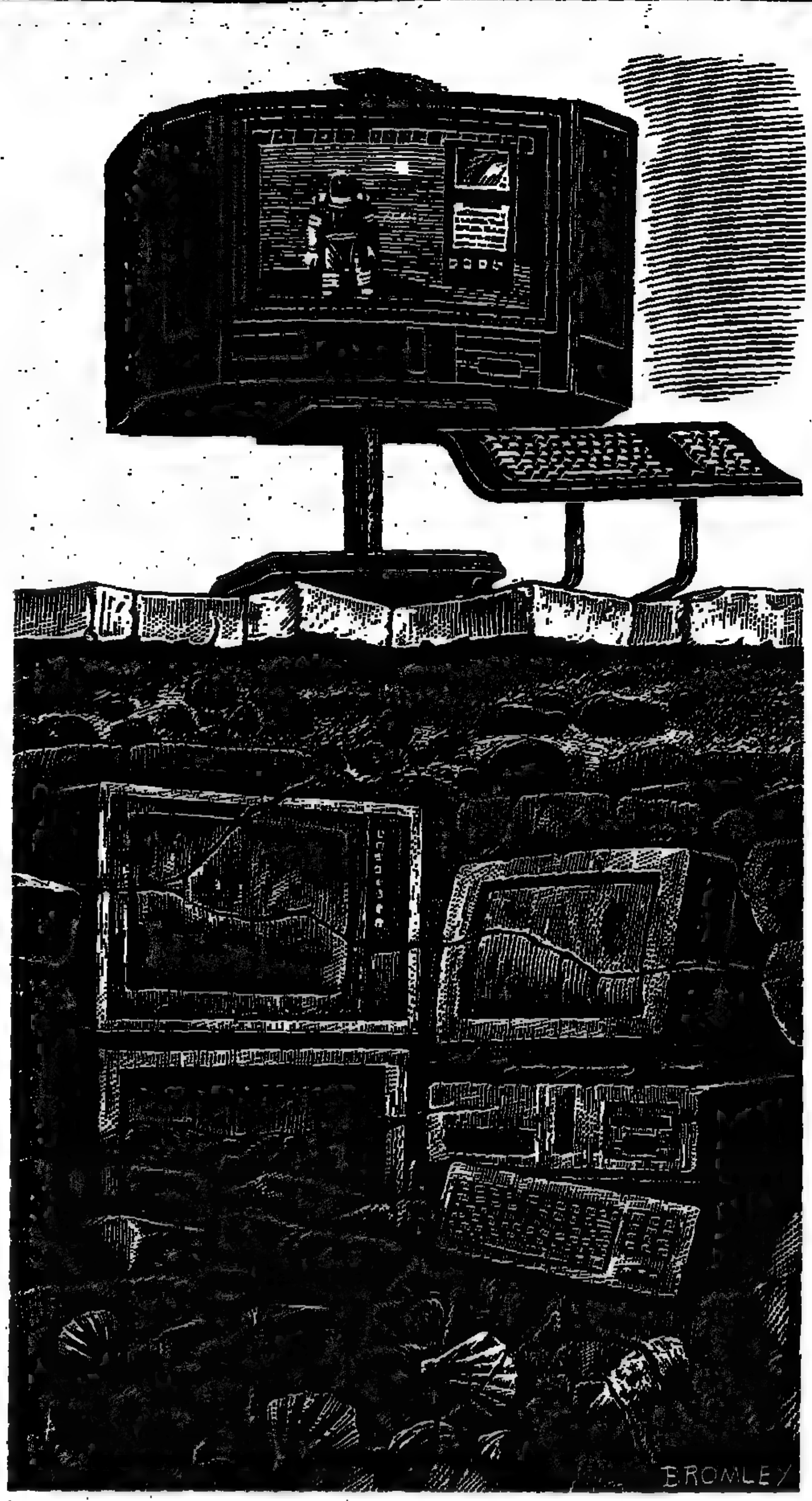
The MSNBC Net site will carry background material linked to TV shows as well as its own news reports. In addition to text and graphical materials, MSNBC's Net pages will feature sound and video clips, some of them drawn from the cable TV news shows.

Like all Web sites, MSNBC will also enable users to navigate their own routes through the sea of information on offer. And users will in addition be offered "personalised" pages specially geared to individual interests.

For the moment, the MSNBC cable and Net services will be viewed, typically, on different screens: a TV set for the cable programmes and a personal computer for the Web site. However, advances in Net technology that enable the distribution of video and sound to computers, together with the development of new types of modem that permit the distribution of Net pages via TV cable and satellite broadcasting systems, appear to point very clearly toward a combination of the two services on a single screen.

The joint venture with Microsoft ensures that NBC will be in the forefront of such developments, says Andrew Lack, president of NBC news. But he is cautious about the development of "enhanced television", as it is called at present.

"We don't know where or when the convergence will occur. There are a lot of experiments underway and a lot of complicated issues to be overcome, but through this joint venture we are on the front edge," he says.



Tim Jackson

Software pirates sail muddy waters

Q: What can be stolen, even though its owner still holds it? A: Software. Strictly speaking, the answer should be any kind of intellectual property, from the design of a new aircraft engine to the sound of a great cellist playing a Bach suite. But software is uniquely stealable: it is easy and cheap even for amateurs to copy, and unlike music CDs recorded on to analogue tapes, it suffers no loss of quality as copies are themselves copied.

Software theft, often referred to picturesquely as "piracy", is a big issue. Any analyst worth his salt can estimate how many more billions Bill Gates would be worth if every copy of a Microsoft program were properly paid for. Every once in a while, the opening of a big court case or the discovery of a CD plant in China turning out millions of illicit spreadsheets stokes the controversy.

Last week Argentina was in the dog-house. According to Clarin, an Argentine paper, and to Canada's Financial Post, Microsoft has taken one of the country's provincial governments to court, claiming $4m (£2.5m) in compensation for allegedly using illegally copied software on 4,500 of its 6,500 computers. The company also claimed that 90 per cent of all the software in use across the country's public sector – national, provincial and local – is pirated.

"State sector fraud costs software producers $60m a year," Microsoft's local general manager was quoted as saying. "And we are going to take cases to court." Industry bodies that fight piracy publish statistics that claim to show, with suspicious precision, the level of copying in different countries.

My guess is that polls that probe the incidence of piracy are unreliable, and that different patterns of computer use and different responses to pollsters may explain why the inhabitants of one country appear to steal 75 per cent of the programs they use, while those of its neighbour apparently steal only 25 per cent.

Software theft is almost certainly more prevalent in poorer countries than in America, and it is not hard to see why. Even if software prices were the same throughout the world, a $99 program costs the equivalent of many more days of work in Delhi than in Seattle. Yet they are not. In Britain, it is routine for software houses to copy the US price tag but replace the dollar sign with a pound. In markets with other languages and alphabets, software houses routinely try to recoup the cost of developing the localised version by adding a painful price premium.

There is probably another reason why software theft is less common in America than elsewhere. The percentage of the US population that works in service businesses is unusually high. People in manufacturing in other countries, who work in "atoms" rather than "bits", as Nicholas Negroponte of MIT likes to put it, are likely to be less familiar with the idea that something intangible can be of value and should therefore not be stolen.

Those who make a living from intellectual property become much more conscious of the threat to their livelihoods from people who copy it, use it without permission, or even borrow ideas from it. Yet it is still striking how many people, even in Britain or in the US, are willing to use copied software without qualms – but would be shocked at the idea of going to a concert-hall, like the hero of the French film *Diva*, and making an illicit recording of a performance by a great soprano.

During the past decade, the industry's campaigns and its support for whistleblowers have made people in many different countries increasingly aware of the issue, and increasingly honest.

But it is far from clear that this trend will continue, for after devoting so much energy to persuading people that their products are of high value and should not be stolen, software companies have started giving product away. The best example of a giveaway, covered in this column before, is Netscape's policy of allowing people to "evaluate" its Navigator Web browser.

This month, Netscape was able to boast that its policy has allowed Navigator to overtake Microsoft Word as the world's most popular piece of software, with 38m copies in use across the world. But consumers are not fools. They know Netscape had good commercial reasons for giving away its package. It had more than a vague hope that customers who had accepted a free trial might go on to the paying version.

Netscape's giveaway policy built a network of users whose size enhanced the value of each copy of the program. No wonder that consumers who contributed to the process of making Navigator into an industry standard may feel some chagrin at being labelled thieves. Their use of the software, even unpaid, brought value to its creator – and therefore in some sense can be deemed to be payment.

I would not argue that users of Navigator and other freebie software have an unfettered right to continue to use their packages in defiance of the original licence. But the rise of the giveaway certainly muddies the moral waters, and may well produce a backlash against enforcement of software copyrights. And the distinction in a single company between packages that are sold and packages that are given away may prove hard to maintain.

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Vogue fashions online service

By Stephen McGookin

Imagine being able to look at a photograph of a waif-like supermodel in a hugely expensive little black designer number – then deciding you'd like to see the dress in red instead. Or maybe in the next size up.

Your sartorial whims may be indulged online sometime in the not-too-distant future by *Vogue* magazine, Condé Nast's global fashion bible, whose recently-launched Internet service took last week's *Yellow Pages* award for best UK commercial site.

Interactive fitting rooms are only one of the ideas being tossed around by *Vogue's* online editor, Dan Conaghan, and his team, but for now the 600-page, graphic-rich *Vogue* site (*www.vogue.co.uk*) features traditional fashion shoots with several consecutive images cleverly overlaid to form an arresting montage.

Since the site makes use of Frames and Java developments, the pages might be expected to take as long to download as it takes to pay off a Versace credit account.

But because Conaghan insisted a quick view-speed was "absolutely uppermost", file sizes have been kept small enough to be manageable.

The main Condé Nast site – with access to other magazines such as *World of Interiors*, *House and Garden*, *Vanity Fair* and *GQ* – has been up since last September, and has 150,000 registered readers, or about 1,500 a day.

With a brand such as *Vogue*, the advertising response has been predictably enthusiastic from Condé Nast's viewpoint. In spite of the recent controversy over the magazine's use of ultra-thin models, high-profile advertisers such as Estee Lauder, Aramis, Rover/MG, Nike and Eurostar have already signed up.

And editorial director Nicholas Coleridge anticipates being able to deliver large numbers of high-income, highly targeted readers.

While the company has separated its print and online advertising efforts, he says that reinforcing the distinct brand identity of the editorial product will be crucial.

One way the site is utilising the weight of *Vogue's* name is by using the magazine's huge archive. The pages now feature a flashback to the magazine of 50 years ago, with further historical projects in the works.

The next stage for *Vogue* is to move into online ordering. Coleridge says the magazine is set to announce a tie-up with a large – unnamed – retail group to put a home shopping facility in place.

So dressing our own virtual mannequins might be closer than we think. It is probably a fair bet the clothes will always look best on the dummy.

Net mannequins: creations by *Dior* and *Valentino* may go online

Cyber sightings

● A grouping of Internet and electronic commerce pioneers, including the Electronic Frontier Foundation, has created eTRUST, a project to examine aspects of online transactional security and privacy. This is an area that is crucial to the development of the Net as a viable sales and marketing medium, and any study of the subject by practitioners is highly worthwhile. Full details can be found at *www.etrust.org*

● Cybercard (*www.cybercard.co.uk*) is a nice idea, offering a personalised greetings card service for those of us who spend far too much time in front of a screen. You can choose from existing templates or even design your own greetings card, which will be printed and mailed within 48 hours for £1.99.

● The Bamf Corp's Digital Marketplace site (*www.dgtlmrktplce.com*) is a way of linking sellers and buyers or investors in specific sectors, ranging from new media, healthcare, manufacturing and engineering. A good search facility helps to pinpoint individual opportunities. I searched, rather unimaginatively, using the key word "internet". And the Rights on Demand section might prove interesting if you're in the intellectual property field.

● Fancy some contentious economic argument? Take a look at Sven Martinsen's International Job Creation Campaign (*www.cybercomm.no/work*), a project set up to "introduce and establish job creation as a competitive factor in business". That is all fine and well, but it seems to gloss over exactly how, or even why, organisations should join in. But if you like the idea, and your company wants to join, you get to pay Sven up to $10,000. Simple, really.

● Publishing giant Reed-Elsevier launched its new site (*www.reed-elsevier.com*) last week, and it has good graphics and lots of detailed corporate information.

● The Royal Horticultural Society has a site (*www.kudos.co.uk/rhs/rhs/rhs1.htm*), which is nice and simple, and if the numbers of people queuing to get into Chelsea flower show are anything to go by, the site may prove very popular. It has plenty of information about society publications and forthcoming events.

● As searchable financial market links go, Efficient Frontier Systems' Wall Street Index (*www.efrontier.com/efindex/index.html*) is pretty comprehensive and straightforward. When I carried out a search for "SEC", the screen filled up with more securities brokers and dealers than you'd find in the NY Athletic Club most lunchtimes. It is another good site to bookmark.

www.ft.com

Travel News · Roger Bray

Teledoctors on test

Passengers suffering medical emergencies such as heart attacks on aircraft will soon be able to have their symptoms checked by an expert thousands of miles away. The US carrier United Airlines is to start testing a briefcase-sized lap-top device which acts as an electrocardiogram and transmits its readings, along with other potentially crucial information, including details of blood pressure and respiration, to the medical centre at the company's Chicago base. "We have quite a big team there because we need to carry out health checks on pilots, for example," a spokesman says. "But if necessary we could also call on specialists outside." During a three-month trial aboard a Boeing 767 twinjet, United will simulate in-flight emergencies and set up procedures for monitoring and responding to them.

Food on high

The world's highest restaurant complex is open for business again in New York after a $25m restoration. Windows on the World offers the likes of white clam risotto topped with poached lobster in green sauce, and a seagull's view of lower Manhattan. The complex is on the 106th and 107th floors of the World Trade Centre and is the last part of the building to re-open following the bombing there in February, 1993. It includes two restaurants and the immodestly named "Greatest Bar on Earth", which serves oysters and sushi. The bar incorporates what might, in the tobacco-hostile city of New York, seem a mirage: a separate, glass-panelled ghetto described as "a cigar-positive oasis".

Amsterdam to Belfast

With sectarian violence flaring again in Northern Ireland this is not the best week to start a new air service there. Today sees the launch of flights between Belfast and Amsterdam under a code-sharing arrangement between Air UK and Jersey European Airways. The service immediately fills the gap left by Dutch airline KLM, which has just pulled out of the route. There will be daily departures from Belfast at 3.40pm and from Amsterdam at 7.05pm, except on Saturdays when flights will leave at 10am and 2.30pm, respectively. Jersey European will continue to operates Belfast flights connecting with Air UK's Amsterdam services at Stansted.

Gatwick buzz

The lingering notion that flying from London's Gatwick airport inevitably means elbowing a path through massed ranks of charter package holidaymakers looks increasingly exaggerated. Owner BAA notes that last month scheduled traffic there rose by 14 per cent compared to June last year, while charter business, hit by a general downturn in UK summer holiday bookings, fell 10 per cent. The impression that terminals are busier is entirely justified, however. June's overall increase at BAA's seven airports was 4.4 per cent.

Machine check-in

British Midland plans to install self-service ticket machines at London Heathrow's Terminal 1 and at Glasgow and Edinburgh airports later this year. Passengers booking ahead by credit card, and travelling with hand baggage only, will also be able to use the machines to check in, select seats and get boarding passes. The airline says it is still conducting a feasibility study and may extend the scheme to other airports.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	30	30	28	29	30
Hong Kong	30	31	31	30	30
London	26	24	23	24	25
Frankfurt	27	25	23	25	26
New York	29	28	31	30	29
L. Angeles	25	27	28	28	27
Milan	30	28	28	27	28
Paris	26	27	25	26	27
Zurich	27	25	23	24	25

Information supplied by Meteo Consult of the Netherlands

Computers are gradually taking over services from real people in US hotels, says **Victoria Griffith**

The impersonal touch

When architect Ann Farrar went on a business trip to Washington, DC, recently, she was amazed at how little contact she had with hotel staff at the Hyatt Regency, where she took a room. "I don't think I talked to anyone at the hotel during my entire stay," she says.

Increasing automation at hotels around the US means experiences like Farrar's may become commonplace over the next few years. Among the latest innovations are check-in kiosks that resemble bank-teller machines. Last April, Hyatt installed 18 such kiosks at 16 of its US hotels.

The Promus hotel corporation, which runs Embassy Suites and Hampton Inn, is testing similar machines at three hotels, and the new Wingate Inn chain plans to offer automatic check-in at all its locations. The Choice hotel chain is introducing similar facilities.

The new check-in kiosks automate one of the last contact points between guest and hotel. Innovations in the industry over the past few years mean guests' stays are increasingly anonymous. For example, Voicemail has largely replaced handwritten message slips tucked under the door. Automatic check-out, which allows guests to review their bills on a television/computer screen in their rooms, was launched six years ago and has proved extremely popular. Some hotels allow guests to order room service via the TV set. Indeed, Hyatt says more than half its guests take advantage of its computer waitering service.

While some travellers are appalled at the vanishing personal touch, hotel companies believe anonymity is exactly what many guests crave. "A lot of travellers tell me they don't want to have to see or talk to anyone," says Christopher Elam, corporate director of rooms for Hyatt. "They just want to walk in their room, close the door and relax."

Automation holds undeniable advantages. The old-fashioned scrawled messages may be more personal, but they are also often incomprehensible. Being greeted by a smiling receptionist may feel more welcoming at times, but the long lines at many hotels can be extremely annoying.

Some observers believe, in fact, that the hotel business has been very slow to adopt automation. "The lodging industry is viewed as technologically retarded by a lot of people," says Kenneth Hine, president of the American Hotel and Motel Association. "But you've got a new generation that's very used to the convenience of self-service, and the hotels are starting to cater to them."

Machines can do the job faster, hotel chains assert. Promus says its new check-in kiosks, for instance, can complete the job in less than one minute.

Although Promus says it is still ironing out some technological kinks, most hoteliers say the machines work well. "The technology here is almost too simple to mess up," says Christopher Elam.

The new machines function in a similar way throughout the industry. Guests insert their credit card and confirm room type, the number of guests and length of stay. The machine then dispenses a magnetic card "key".

Some of the kiosks also offer extras such as directions to the room and general information about hotel facilities.

Hyatt says the kiosks have been so well received that the hotel group plans to extend their use to the entire chain. In an internal survey, 94 per cent of guests using the machines said they would use them again.

Other hotel companies are equally optimistic. "I think this will become an industry standard within the next three to five years," predicts Fred Mosser, president of Wingate Inn.

While hotels concede the automatic check-in may mean some personnel savings, they insist their primary motivation is service to the customer. "This frees up the front desk to take care of personal problems and complaints," says Norman Cavin, director of marketing for Promus' Hampton Inn brand. "You can't completely get rid of the personal touch."

Over the next few years, technology is expected to replace some of the last vestiges of traditional concierge duties. Marriott, for instance, is experimenting with interactive television/computer programmes in guest rooms to dispense with information about restaurants, tourist and business-related topics – a service traditionally provided at the front desk. Ascent Entertainment, which provides computer services to Marriott and other hotels, is studying the possibility of printing maps and directions for guests in their rooms.

Yet there may be no point in automating all services, according to Paul Jacobson of Ascent. "Some things are worthwhile, but you have to be careful," he says.

"We have the technology to display faxes [sent to hotel guests] on the television screen, for example, but is there really any point in doing that? In the end it will all be decided by economics. Whatever provides a real service at no cost, or even at a saving, to the hotels will be adopted. The rest will be left aside."

Rail links take the hike out of Heathrow

Airline passengers travelling between Heathrow airport and central London can look forward to a faster, more comfortable journey as more modern rail links are created over the next year or so.

Travellers now have the alternative of the Underground's Piccadilly line trains, the Airbus service or a taxi.

The Underground is frequently crowded and is not designed for large amounts of luggage, while buses and taxis frequently get caught in traffic jams. But improvements are in hand in the shape of refurbishments to the 20-year old Piccadilly line trains and, in the longer term, the start of the Heathrow Express service.

London Underground is taking delivery of the modernised Piccadilly line rolling stock from manufacturer Bombardier and will have a completely rejuvenated fleet of 87 trains in operation by 1999.

The number of seats in each carriage has been reduced by four to allow more luggage space. Security cameras have been installed and large windows created at the end of each carriage to improve safety.

Ventilation has been improved by means of powerful roof-mounted fans. Dot-matrix display panels will indicate destinations and, once trackside data links have been installed, will show each stop.

For all the improvements to the Piccadilly line, it remains a service shared between airline passengers and commuters.

The first dedicated service for airline passengers, the Heathrow Express, costing £300m and involving a new electrified rail line, does not start until June 1998.

However, to improve links while tunnelling under the airport is completed, the new trains will start running non-stop between Paddington and a temporary station near Heathrow in September 1997. The onward connection to the airport terminals will be by bus. The Heathrow Express trains, which are being built by Siemens, are fully air-conditioned. They will have large glass-sided luggage areas positioned in front of the seats so travellers can keep their possessions in view.

The interior is spacious with large windows, to contrast with the cramped conditions on most aircraft. Bob Bayman, general manager on the Piccadilly line, estimates that the Express will take 20 per cent of his passengers.

However, with the non-stop service expected to cost between two and three times the £3.20 charged by the Underground, he believes it will appeal to a different market.

Charles Batchelor

ARTS

OPENINGS

LONDON
The Royal Ballet returns to Covent Garden after an extended tour. "Manon" is on view on Wednesday and Saturday (matinee and evening). Casts feature Sylvie Guillem (left), Irek Mukhamedov, Sarah Wildor.
The Tate Gallery is mounting an exhibition of drawings by Hans Hartung (1904-89), the German-born artist who came to prominence in Paris in the late 1940s. The show opens tomorrow.

VERBIER
For the past three summers, some of the world's finest instrumental soloists have gathered in this Swiss Alpine resort to make music together. This year's programme includes Brahms chamber music played by Yuri Bashmet, Maxim Vengerov (right), Yefim Bronfman and others, plus a portrait of D.H. Lawrence by Ben Kingsley. The festival opens on Friday with an orchestral concert featuring Barbara Hendricks in Berlioz's "Les nuits d'ete".

AIX-EN-PROVENCE
Handel's "Semele" receives its French stage premiere at the Aix-en-Provence festival tomorrow, in a production conducted by William Christie and staged by Robert Carsen. The cast includes Rosemary Joshua and Willard White.

BREGENZ
Situated at the Austrian end of Lake Constance, Bregenz is best known in the opera world for its open-air performances on a floating stage. This summer sees the return of David Pountney's production of "Fidelio", but the main attraction for connoisseurs is an indoor staging of Chausson's rarely-performed "Le Roi Arthus". The first night is on Saturday.

MANCHESTER
The Royal Exchange Theatre was severely damaged by the recent bomb but its company has carried on playing in temporary homes. This week it presents a new production of Philip Barry's American classic "The Philadelphia Story", directed by Josephine Abady from New York's Circle in the Square.

SALZBURG
The Salzburg festival opens on Saturday with a performance of Mahler's Second Symphony conducted by Gilbert Kaplan. There are eight opera productions this summer, including "Fidelio" conducted by Georg Solti (right), "Elektra" starring Hildegard Behrens and the Boulez-Stein production of Schoenberg's "Moses und Aron". The drama programme features Fiona Shaw in Deborah Warner's controversial production of "Richard II".

Music scales up in Sweden

Michael Church visits Stockholm's Konserthus

Few European cities can match Stockholm's success in attracting and holding audiences for traditional concert programmes. While concert promoters in London and some other centres scale down their classical programmes, Stockholm's Konserthus has maintained its appeal for young and old alike. Peter Schele, marketing manager of the Konserthus, concedes that the largest segment of his audience consists of people in their 60s, but for him this is a matter for rejoicing: "This group are not dying off – they're living forever and their ranks are growing all the time. And they are people with taste, time, and money to spend. If I were cynical, I'd say I needed a smaller budget now than I did 10 years ago, because this age-group attends with increasing regularity."

Moreover, he derides the perennial pursuit of youth. "It's not natural for 18-year-olds to spend their Friday nights listening to symphonic performances: I'd find it weird if they did. This is an obsession of politicians and administrators, and it's pointless and unnecessary." On the other hand, the Konserthus has its own very effective way of [illegible] the longest-running children's concert series in the world. For five weeks every summer, children are bussed in from far and wide on musical day-trips. The scheme has been in operation since the 1920s: 40,000 attended this year.

The Konserthus has just emerged from a thorough restoration. Designed in 1926 by the architect Tengbom as "a Greek temple for the Arctic Circle", it is a breathtaking example of what can happen when the right talents are harnessed in the right way.

Tengbom's model for the central hall was that of a classical courtyard surrounded by porticos. The sculptors and craftsmen he employed were imbued with ideas from both Pompeii and art nouveau. Wherever you look – from floor mosaics to inlaid wood panelling, from bronze statuary on the stairways to the Orrefors glass of the mirrors and lamps – your eye is arrested by beauty. No detail was too small to merit Tengbom's attention, while the adjoining hall – now used for chamber concerts – allowed the painter Isaac Grunewald to mimic the decorative style of Italian Renaissance on a truly heroic scale.

With the arrival this month of a new commercial sponsor – the Astra pharmaceutical company – the Konserthus has just emerged from the most hair-raising financial chapter in its history. The hall (plus its orchestra) is run by a trust controlled by the county council, which provides two thirds of its revenue; last summer the main private sponsor suddenly pulled out, and coincidentally the trust appointed a new chairman of the board.

"The situation was very worrying," says Schele. "We had a Labour government with huge economic problems and Anitra Steen, our new chairman, was deputy head of the finance ministry, and had never shown any interest in the arts. We thought they were going to close us down. We couldn't even afford to hire the artists we needed for the next year's programme. We were paralysed." But not for long. As politicians sometimes encouragingly do, Steen went native, and has now become a ferocious defender of the hall and its interests. Extra government money has been found to tide it over.

But in terms of audiences for its classical programme, the hall has long been consistently successful. It now averages 80 per cent, with two thirds of that through subscription. One recent innovation is a series of family concerts on Saturdays; another is a series of "Happy Hour" concerts – 45-minute events at six in the evening for which you pay £10 and get a beer and a sandwich thrown in. And the Konserthus has set up a sensibly commercial relationship with shops and restaurants in the surrounding area: show a concert ticket, and get a reduction on what you buy.

The Konserthus has long known the virtues of a concentrated bash at new music. It has done well with festivals of Ligeti and Lutoslawski, and last year its Arvo Pärt festival broke box office records.

Meanwhile, to the 104 members of the Royal Stockholm Philharmonic Orchestra, the Konserthus is home. They rehearse, record, and perform there; they even have their own sauna rooms. And they are now almost exclusively Swedish: the Romanians and Bulgarians who swelled their ranks 20 years ago have been squeezed out by inexorable pressures. These pressures derive from two things: Sweden's excellent music education has bred a wealth of talent; and in these straitened times the other orchestras have had to cut back. When the Konserthus advertised a violin vacancy this year, 60 players applied.

Ake Holmquist, the Konserthus's executive director, recently voiced a resonant thought. Stockholm, he said, should aim to become the cultural focus for the whole of the Baltic. With the Estonian conductor Paavo Järvi now making the running at the Konserthus, that goal is drawing nearer.

Greek temple of the Arctic Circle: Stockholm's Konserthus

Feathers unruffled

The Eagles made a suitably gentle return after 15 years of ease, writes Antony Thorncroft

For those who found the Three Tenors concert at Wembley the previous week a bit challenging, a trifle adventurous, the stadium had the perfect palliative last Saturday – the Eagles.

Here was an evening to soothe the most fevered fancies. The English suburbs' finest had a thoroughly agreeable time over their picnic baskets, tapping a gentle toe to the neat harmonies and the carefully crafted Californian country rock of the most commercially safe – and successful – band of all time. Mesmeric rock rhythms and soaring guitar solos were presented here in the best possible taste.

That the second biggest cheer of the evening went to Nick Faldo, the golfer, tells you most. That the third biggest went to the woman who, in her frenzy, took off her tank top to wave but sensibly kept on her matronly bra, tells it all. This was the pilot show for the *Friday Night is Music Night* of the early 21st century – the greying of pop.

Of course the biggest acclaim was for the Eagles, who had the guts to take the millions and re-form after 15 years of swimming pool ease. They looked good: faces tightly drawn as if sprinkled daily with formaldehyde, bodies coping well against sag – Joe Walsh even managed little hops after the faster numbers. They played like they always did – with powerful restraint, promising excitement that will never get out of hand.

It was an evening of vignettes. The snap of all five Eagles huddled together playing guitars, perhaps the most unfashionable sight in the world but very encouraging for those who rightly think the guitar to be the totem of rock; the wonderfully old-fashioned set of girders, lamp posts and industrial detritus illuminated by well mannered psychedelic squiggles on the backing screen; the audience easing into shoulder shakes before gaining the confidence to kick away the seats and boogie.

The Eagles hold enough musical aces to please everyone. They got rid of "Hotel California", US pop's crushing response to the UK's preposterous "Whiter shade of pale", early on and kept "Desperado" for the finale almost three hours later. The acoustic set was a mistake, reminding everyone of their sedentary futures, but when the saxophone got going, passion flowed down to the guitar breaks.

Songs such as "Life in the fast lane" sum up how the audience like to remember their 1970s, and in "Life's been good" the Eagles perfectly encapsulated the whole event. "Life's been good to us so far" they croon and 70,000 mortgagees rattle their beer cans in agreement; "Everyone is so damned different. We haven't changed," they continue; and the reunion has been satisfactorily consummated.

Everyone streamed away happy. Nothing was challenged or unsettled; no ground broken. But the forty-somethings could believe they had inherited the world and could still shake it, albeit gently and before 10.30 at night.

Theatre/Ian Shuttleworth

Dramatic monologues

Little seems to exaggerate the success or failure of a theatrical piece as starkly as writing it in a series of monologues. Brian Friel's *Faith Healer* works magnificently, to a degree of which Wallace Shawn's *The Designated Mourner* can barely dream. Conor McPherson's *This Lime Tree Bower* also comes out on top; it may not be a play, but it is a damn fine story.

Frank works in the family "chipper" in a quiet seaside town south of Dublin; his younger brother Joe nurses a non-sexual schoolboy infatuation with the charismatic but significantly named Damien; their sister's boyfriend Ray is an arrogant, philandering philosophy don.

Each has his own wants – teenage love, intellectual glory or the chance to take the local shark down several pegs; Frank and Ray show holes at their respective cores, Joe feels a similar lack which is part of the adolescent experience. Turn and turn about, they give their individual accounts of a week in which Joe sees Damien's true colours, Ray disgraces himself and Frank pulls off an unexpectedly high-yield robbery.

The strength of McPherson's piece (which he also directs), however, is the ordinary detail, the pettiness surrounding the crucial events. Days, and nights of dream and reverie, are recounted with an understated attention reminiscent of fellow Irishman Neil Jordan's early short stories.

The laughs come not from jokes as such, but from matter-of-fact accounts of everyday goings-on: Joe, describing his attempts to look unconcerned in the company of a couple of girls, remarks simply: "I fiddled with my [bicycle's] brakes and broke them."

It is McPherson's deep feeling for the perfection of a story well told which gives the evening its quiet joy.

The cast of last year's successful Dublin Festival production reprise their roles with, for the most part, unfussy assurance. Ian Cregg's Joe is impassioned but diffident, a reserved lad at that difficult age. Conor Mullen is all hands and easy mid-Atlantic Irish accent, giving Ray the air of a character in a late Woody Allen movie.

Niall Shanahan as Frank sounds tired and fatalistic, yet Shanahan is the only one of the trio who visibly (though discreetly) listens and reacts to the others' monologues – in fact, the only brief exchange in two hours comes when Frank remarks at the end of one of Ray's sequences, "I never heard that"; "I was saving it," replies Ray, and with that Frank begins his monologue proper.

After the last six months or so, some London theatregoers may consider themselves "Irished out". It would be a pity to pass up such a little gem as *This Lime Tree Bower* (the Bush's last production before it closes for a six-month refurbishment) for so specious a reason.

At the Bush Theatre, London W12, until August 3 (0181 743 3388).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Margaret Price: accompanied by pianist Thomas Dewey. The soprano performs songs by Mahler and Wolf; 8.15pm; Jul 17
● Schönbrunn Ensemble: with soprano Nancy Argenta and traverso-player Marten Root perform works by J.S. Bach and Brahms; 8.15pm; Jul 16

BASEL

EXHIBITION
Kunstmuseum Basel
Tel: 41-61-2710228
● Canto d'Amore. Klassizistische Moderne in Musik und bildender Kunst 1914-1935: exhibition focusing on classicist modernism in music and visual arts. The display features more than 100 paintings, drawings and sculptures from international museum and private collections, as well as musical scores from the collection of the Paul Sacher Foundation. The show includes works by Picasso, Matisse, De Chirico, Dali, Bonnard, Maillol and Léger; to Aug 11

BONN

EXHIBITION
Kunstmuseum Bonn
Tel: 49-228-776121
● Picasso - Illustrierte Bücher: exhibition of books and book illustrations by Pablo Picasso. The approximately 100 works on display give an overview of the artist's development in this field between 1911 and 1974; to Sep 22

BREGENZ

OPERA
Bregenzer Festspiele - Festspiel und Kongresshaus
Tel: 43-5574-4920
● Le Roi Arthus: by Chausson. Conducted by Marcello Viotti and performed by the Wiener Symphoniker, the Sofia Chamber Choir and the Choir of the Russian Academy Moscow. Part of the Bregenzer Festspiele; 7.30pm; Jul 20

COPENHAGEN

CONCERT
Tivoli Concert Hall
Tel: 45-33 15 10 01
● Edinburgh Youth Orchestra: with conductor Hilary Davan Wetton and soloist Donald Lillan perform works by Elgar, Copland and Tchaikovsky; 7.30pm; Jul 16
EXHIBITION
Statens Museum for Kunst - Royal Museum of Fine Arts
Tel: 45-33 91 21 26
● Statens Museum for Kunst – 100 Years – 100 Masterpieces: to celebrate the museum's centenary, 100 of its masterpieces are displayed in the various sections of the museum; to Aug 1

INDIANAPOLIS

EXHIBITION
Indianapolis Museum of Art
Tel: 1-317-923-1331
● Come Up and See My Etchings: Director's Choice from the Print Collection: the 50 works in the exhibition are chosen by IMA director Bret Waller. The prints span the 15th through the 20th centuries and include works by Mary Cassett, Pablo Picasso and James Abbot McNeill Whistler; to Oct 13

LONDON

AUCTION
Bonhams Tel: 44-171-3933900
● The Alexander Patterson Collection: sale of a collection of around 7,000 Mexican and Spanish American coins and cut and counterstamped coins of the West Indies. The collection is named after its creator, Alexander Patterson, an eccentric collector known to dealers as the "Pillar King", owing to his passion for the "Pillar" coinage, the milled silver coins of the Spanish-American mints, showing the double globes of the old and the new worlds placed between the Pillars of Hercules; 10.30am & 1pm; Jul 16, 17
DANCE
London Coliseum
Tel: 44-171-8360111
● Alice in Wonderland: a choreography by Derek Deane to music by Tchaikovsky, performed by the English National Ballet; Tue-Sat 7.30pm, Sat also 2.30pm; from Jul 16 to Jul 20
EXHIBITION
National Gallery
Tel: 44-171-7472885
● Degas: Beyond Impressionism: this exhibition features the late work of Edgar Degas. Degas achieved fame with his pictures of the ballet and the racecourse, but he continued to work long after this period, often experimenting with new techniques and subjects; to Aug 26

LOS ANGELES

EXHIBITION
The J. Paul Getty Museum
Tel: 1-310-459-7611
● Roger Fenton: The Oriental Suite: the first exhibition devoted to the little-known "Orientalist" series by the British photographer Roger Fenton (1819-1869). These 45 images by Fenton and some of his contemporaries in photography and watercolour reveal a fascination with the Islamic world of the near east, which was seen and portrayed as mysterious, languorous and sensual. The series was executed in Fenton's London studio, where friends and a professional model posed in costume to create tableaux of Turkish life; from Jul 16 to Oct 6

MADRID

EXHIBITION
Palacio de Velázquez
Tel: 34-1-573-62-45
● Cindy Sherman: exhibition of a selection of some 70 photoworks featuring examples of the "Untitled Film Stills" of 1977-1980 which brought Sherman international recognition. Also on show are works from her most extreme photo-series "Disgust Pictures" (1986-1989), "Sex pictures" (1992) and "Horror Pictures" (1995), the most recent of which have not been exhibited previously; to Sep 22

MUNICH

CONCERT
Nationaltheater
Tel: 49-89-21851920
● Bayerisches Staatsorchester: with conductor Giuseppe Sinopoli and soprano Felicity Lott perform works by Schoenberg and Strauss. Part of the Münchner Opern-Festspiele; 8pm; Jul 19
OPERA
Nationaltheater
Tel: 49-89-21851920
● La Damnation de Faust: by Berlioz. Conducted by Gerd Albrecht and performed by the Bayerische Staatsoper. Part of the Münchner Opern-Festpiele; 8pm; Jul 16

NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● Mostly Mozart Festival Orchestra: with conductor/violinist Pinchas Zukerman and violinist Tricia Park perform works by Mozart, J.S. Bach and Mendelssohn. Part of the Mostly Mozart Festival; 8pm; Jul 16, 17
EXHIBITION
MOMA - Museum of Modern Art, New York Tel: 1-212-708-9400
● From Bauhaus To Pop: Masterworks Given By Philip Johnson: marking the 90th birthday of architect Philip Johnson, honouring seven decades of contributions by one of the MOMA's most dedicated supporters. In conjunction with the exhibition, Johnson has organized a special installation of works in The Abby Aldrich Rockefeller Sculpture Garden, the space he designed in 1953; to Sep 3

PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Gaetano Pesce: a retrospective exhibition devoted to this artist, featuring furniture, objects and architectual projects; to Oct 7

ROME

CONCERT
Accademia Nazionale di Santa Cecilia
Tel: 39-6-3611064
● Concerto Italiano: with conductor Rinaldo Alessandrini perform works by Bononcini and Scarlatti; 9pm; Jul 16

SYDNEY

CONCERT
Concert Hall
Tel: 61-2-250-7111
● 1996 Sydney International Piano Competition of Australia: the finals of this international competition for young pianists; 8pm; Jul 16, 17, 19, 20 (also 2.30pm)

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Michael Prowse · America

Give men a break

Self-righteous American feminists are waging a holy war against the beleaguered male of the species

You might think that a nation founded on a commitment to personal liberty would allow a few male-only colleges of higher education, if only for *the sake of diversity. Think* again. Americans are living in an intolerant era in which everyone, without exception, must conform to certain politically correct nostrums, or feel the weight of the law.

The latest manifestation of this intolerance is the Supreme Court's ruling that the Virginia Military Institute, founded in 1839 and funded by the state of Virginia, must admit women. The decision effectively kills single-sex education for men in the public sector, and leaves it highly vulnerable to challenge in the private sector.

After the failure of a seven-year legal battle costing $6m, VMI's board signalled this weekend that it is looking at ways to admit women. The only other all-male publicly-funded college – The Citadel, a military academy in South Carolina – had already thrown in the towel.

The ruling was written by Justice Ruth Bader Ginsberg, a Clinton appointee whose distinguished legal career was devoted to the advancement of women's rights. It must have been a sweet moment of triumph: in 1959 none of New York's patriarchal law firms would offer Ms Ginsberg a job, although she had graduated at *the top of her class at Columbia* Law School. The reason? She was the wrong sex and had a young child. With these memories, how satisfying it must have been to demand a salute from those macho military types in Virginia.

Ms Ginsberg's 41-page judgment was written in a fashion *calculated to influence public* policy for decades to come. She presented VMI's admissions policy as part of a pattern of sexual discrimination persisting for centuries. The mentality behind it, she argued, was similar to that of a Victorian doctor who had argued that the strain of higher education would damage girls' reproductive organs. In pressing for uniformity of treatment of the sexes at all times, she even managed to allude to Plato's advocacy of *female "guardians"* in *The Republic*.

She flatly rejected VMI's claim that co-education would destroy its character because its "adversative" educational technique could not survive the introduction of women. This method involves spartan living, rigorous discipline and total absence of privacy. To build character, new recruits are systematically humiliated by older cadets in an imitation of the old English public school tradition of "fagging".

The fact that many women would not flourish under such a regime was irrelevant, Ms Ginsberg said, as the same could be said *of men*. It was wrong to rest arguments on sexual stereotypes. The important point was that some women desired this type of education. The state had failed to provide an *"exceedingly persuasive justification"* for denying them the chance.

And in setting up a parallel leadership training course for women at a local private college, it had failed miserably to provide a remedy for its discrimination. VMI had higher academic standards, better facilities and an unrivalled network of alumni in the armed services and public life. By keeping its doors closed to women, the state was violating the US *constitution*'s 14th amendment, which guarantees citizens "equal protection" of the law.

All this seems compelling. Yet Ms Ginsberg is surely proving too much. It is certainly logical to argue that the overall range of educational opportunities for men and women *should* be roughly equivalent. But can it be unconstitutional to have even one exception to the rule? Ironically VMI was in the position Ms Ginsberg found herself in 1959 – a nonconformist attempting to pursue a course of action disapproved of by society at large.

In a *blazing dissent*, Justice Antonin Scalia, the conservative theorist on the court, pointed out that Ms Ginsberg was holding Virginia to a higher standard than normal in sexual discrimination cases.

She said it had failed to provide an "exceedingly persuasive justification" for VMI's admissions policy. Yet gender distinctions are typically upheld if "substantially related to an important governmental objective". In this case there was such an objective: educational diversity.

In the state of Virginia there are four single-sex four-year private colleges for women *compared to only one for men*. Given much research showing the benefits of single-sex education, it was thus not unreasonable for Virginia to redress the balance by funding one single-sex college for men (VMI) in addition to 14 co-educational colleges.

Looking beyond the state, the case for preserving VMI was even more powerful: in the US, The New York Times recently reported, there are 84 colleges for women only, with about 130,000 students. Excluding VMI, there are only three for men, all private and with an enrolment of less than 5,000. Women who crave a *"boot camp" education had* the option of federally-funded academies such as West Point, which were forced to become co-educational nearly 20 years ago. Virginia is not an island.

But should a single-sex college for men be publicly funded? Why not? The court's persecution of nonconformists *would only make sense* if 100 per cent of taxpayers favoured co-education, which is most unlikely. So long as Virginia's elected assembly was willing to support VMI, and the overall national opportunities for men and women were comparable, why should a federal court object? Why, as Mr *Scalia complained*, must sensitive social issues be settled by the personal preferences of a handful of judges?

In the long run, VMI may benefit by admitting women. Given that women now occupy positions of responsibility throughout the US armed services, its ability to prepare students for military service was probably impaired. These days, men who are unable to work well alongside women will be as much at a disadvantage in the army as anywhere else. But this ought to have had no bearing on VMI's right to be different, if it and Virginia so chose.

Male bastion no more? Bush at the Virginia Military Institute

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'); e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

The necessary pain of transition

From Mr Alan Gelb.

Sir, It is easy to sympathise with the very real concerns raised in Mr Aaronson's letter of July 4. The 1996 *World Development Report: from Plan to Market* directly discusses many of the points he raised, including widening income distribution, the danger of deep, institutionalised poverty, and the risk that adverse social and distributional effects could undermine the legitimacy, and thus the effectiveness and consistency, of reforms. The report also discusses the need to target and strengthen social assistance.

For example, because of the difficulties in income testing, it concludes that family allowances are one of the most effective ways of reaching *many poor and stresses the* urgent need for policy reforms and administrative strengthening of social programmes.

Where we part company with Mr Aaronson is less on the social issues themselves, but more on the policy steps *needed to overcome a* particularly difficult legacy and get these economies into the sustained recovery that is vital – though not sufficient – for poverty alleviation. On this, the cross-country record is clear. Countries with heavily over-built, low-productivity sectors, and with severe macroeconomic imbalances from the pre-reform period have had little option but to *move rapidly in opening* markets and implementing stabilisation policies.

Yes, this unleashes a stressful restructuring process. But the alternative is no less stressful – for one thing, it involves an extended period of very high inflation, which amounts to a regressive tax and itself induces significant stress, according to household survey evidence. It also leads nowhere: one of the best-documented cross-country observations is that countries that fail to get their macroeconomic house in order perform poorly, and the evidence from transition countries is perfectly consistent with this.

Far from being "utterly complacent" about the reform process facing the transition countries, the World Bank is very concerned that social policies, including education and health, need to be strengthened, *and many of the* bank's operations, which underlie the report, are in fact directed to easing the social impact of the massive economic changes that the transition countries need to make. But there is no viable alternative to moving ahead with these changes – or, at least, none which promises a better future to the people in the countries concerned.

Alan Gelb,
staff director,
World Development Report 1996,
The World Bank,
1818 H Street NW,
Washington DC, US

Preference that hinders competition

From Dr Jörg Schimmelpfennig.

Sir, While the anger of Latin American banana producers and US banana marketing companies at the preferential access to EU markets granted to Caribbean producers is understandable, the easy solution should be treated with caution ("Caribbeans try new banana war strategy", July 10).

In order not to "hurt the economies and democracies of *these Caribbean nations*", the granting of aid rather than effectively supporting prices seems to be a both more simple and more beneficial policy. First, according to conventional economic theory, a recipient of aid is better off with an unconditional rather than an (equally expensive) conditional *matching grant*. Second, while the latter distorts prices in world markets and the former does not, donor countries' consumers could be made better off as well. But this ignores the costs of financing aid, which usually requires taxation in donor countries, distorting domestic markets and causing a corresponding dead-weight loss. Worse still *are the* negative incentives of aid on the receiving country's economy.

While preferential access indeed impairs global competition, it still makes competition work among Caribbean producers. No such incentives are provided by a lump-sum aid, leading in turn to higher production costs, still less global competitiveness and an ever increasing dependence on and, thus, *demand for aid*.

At most, preferential access appears to be some kind of second-best solution. Sometimes, the first-best solution only works in the narrow world of textbook economics.

Jörg Schimmelpfennig,
Department of Economics,
Osnabrück University,
D-49069 Osnabrück, Germany

Is there a nurse on board?

From Ms Honor G. Djurdjevic.

Sir, I found the article "We have an emergency, is there a *doctor on the flight?" (July 6)* quite fascinating and amusing, despite the serious intentions. I'm sure there are many readers trying to imagine just how airline personnel fit a dead body into the confines of an all too small lavatory – in what position, upright?

There is something to be said for making one's wishes known in advance ... I'll take the cargo hold please, so no one will need to stare at my shape beneath a blanket – and I definitely do not want the loo ...

Perhaps we'll yet see the return of flight attendants being hired for their registered nurse status, as they once had to be, decades ago. Ageing passengers still need to get from point A to point B on the map, and many travel with imperfect health. But as long *as they are willing to risk the* stress of long distance air travel, and pay top dollar for the service, then the airlines had better cope.

Honor G. Djurdjevic,
Phoenix,
Arizona, US

Unido deserves the credit

From Mr Dmitri Piskounov.

Sir, Two years ago, an article in the FT entitled "UNloved, UNwanted" (August 4 1994) marked the start of a series of negative press articles on the United Nations Industrial Development Organisation.

Your article "Plan to save one of the world's dirtiest towns" (July 9) – the plan for a "City of Tomorrow" in Sumgait, Azerbaijan – rightly drew attention to the tremendous problems faced by industry in the region and the need for extensive corrective environmental measures. We are pleased for Sumgait that its problems and its aspirations have now attracted the attention of the international media. Nowhere, however, did you mention the fact that the "City of Tomorrow" is a project conceived and designed by Unido, which has put together a team of 16 leading international experts on development economics, environment, engineering, energy, banking, regional development, human resources, business and export promotion and private sector development to assist the government of Azerbaijan in meeting this task. Without the financial help of the UNDP this would not have been possible but the driving force behind the project is Unido.

We would have hoped, for the sake of accurate reporting, that this fact might have been mentioned in your article. Could it be that, insofar as Unido is concerned, the objectivity of your august journal is in danger of becoming clouded by subjectivity?

Dmitri Piskounov,
managing director,
human resource, enterprise and private sector development division,
Unido,
Vienna, Austria

Sense of humour not too much in evidence

From Mr Michael Hambley.

Sir, Regarding the comments of Mr Duncan McKay (Letters, July 12) regarding librarians and the Internet and the protestation from Mr Llewellyn Jones, a British airline pilot, re the recent dispute (Letters, July 10), I must express amazement at the number of fragile egos that seem to abound in the ranks of the "professionally qualified".

Whatever happened to that priceless gift that once distinguished the British – the ability, nay the almost perverse pleasure taken in being able to laugh at oneself?

Michael Hambley,
1-4-14 Azabudai,
Minatoku,
Tokyo 105, Japan

Personal View · Richard Layard

Time to give the bear a hug

The west should embrace Russia as it did Germany after the second world war

 Russia's election result is a decisive vote against the past. But Russia's future role in the world is still uncertain. Will it remain a superpower outside the European Union and the western alliance, or will it be absorbed into the western community as Germany was after the second world war?

This question is vital to the future of the world, and yet it is rarely posed in this way. President Boris Yeltsin's victory and the rise of Mr Alexander Lebed, the former general recently appointed as his security adviser, raise the question in the sharpest terms.

Mr Yeltsin has always wanted to join the west. In 1992 he suggested that Russia should form a new joint organisation with the Nato countries, as friends rather than enemies. His idea was that the Conference for Security and Co-operation in Europe, which already included Russia, should become a sort of super Nato – a new security system for Europe. Nato rejected the idea, while saying at the same *time that Poland, Hungary and* other countries once occupied by Russia might well in due course join the Nato *fold*. All that was offered to Russia was a loose "Partnership For Peace".

Not surprisingly, Mr Yeltsin, who wanted Russia to become a normal country, was upset when Russia continued to be thought of as a threat. As he pointed out, the logic of admitting Poland to Nato would be to establish a western military build-up on the very frontier of the former Soviet Union. How, he asked, was that likely to encourage Russians to think of Russia as a normal member of the community of nations?

Of course, on the basis of historic experience, the Poles *had reason to fear Russia*. But so, too, on the basis of historic experience, did the French in 1945 have reason to fear Germany. Germany had attacked France three times within 70 years. Yet after 1945 the western allies asked Germany to become their partner. It was an act of visionary statesman*ship which has ensured the* peace of Europe.

Why is the west not now making the same approach to Russia? This is a key question which John Parker and I ask in our book *The Coming Russian Boom. There are many factors.*

First, there is the lack of a common enemy. It is, of course, true that the post-war Franco-German alliance has had two purposes – to stop France fighting Germany, and to stop Russia invading either.

By contrast, the west and Russia have no common *enemy (except perhaps China)* and that makes alliance more difficult. But it does not reduce the importance of its purpose – to prevent the old enemies from fighting each other.

A second reason is political instability. How, it is argued, could we get in bed with a country which is so unpredictable? The argument is, of course, valid – we could not do so yet. But, when Russia expresses interest in joining Nato and the EU, two quite *different replies* are possible. One is: "No, never", as said by Nato and by Mr Jacques Delors, the former president of the European Commission. The other is: "How interesting. We would certainly like it, when you have proved your stability and your democracy. Let's discuss it again then." That is *surely the right kind of incentive* to offer.

> If they can see a prospect of full membership of the west, their motivations will be very different from those that will drive them if they receive a brush-off

The third argument is that Russia is not really European. After all, a quarter of Russians live in Asia. This is the worst argument of all. The Russian *mindset is a mixture of Christianity* and rationalism, as in the west. If a westerner lists makers of European culture he will list many Russians: Tolstoy, Dostoyevsky, Chekhov, Tchaikovsky, Rachmaninov, Stravinsky, Prokofiev, Shostakovich, Diaghilev, Stanislavsky, Eisenstein. How many *would* a westerner list from Poland, Hungary, the Czech republic, Slovakia, Romania, Bulgaria and Yugoslavia put together? If these countries are culturally part of Europe, then surely so is Russia.

A related issue is distance. But considering how distant Russia is, its European-ness is all the more remarkable, and it is as European in Vladivostok as it is in Volgograd. Moreover, distance is shrinking as the costs of transport and communications diminish. For all practical purposes Moscow is now nearer to London than Paris was 50 years ago. Excluding a European country from Europe because it is distant no longer makes any sense.

That leaves the only serious argument. Russia is big, in many senses. Economically, of course, it is similar in size to Spain. But in population it equals Germany and France put together. And it borders not only European nations but Islamic central Asia and China. These are genuine difficulties. They mean that full integration would be a matter of decades and not years.

But which way you are going in the long run has profound effects on what steps you take now. That brings me to Mr Lebed. *His true views are not* really known, but he has recently made many remarks hostile to foreigners and to parliamentary democracy. He has never been abroad except to Afghanistan. Wooed sufficiently by the west, he may acquire a different set of views. The same applies to the Russian people as a whole.

If they can see a prospect of full membership of the west, their motivations will be very different from those that will drive them if they receive a brush-off. The history of Spain *after Franco, including* the collapse of the attempted military coup, was largely determined by the prospect of membership of the EU. Access to Europe required rules of democratic behaviour which would have been much less appealing if the pay-off had been less obvious.

This is the spirit in which we *must* now approach Russia. It should be the same spirit with which Germany was treated after 1945. If we do not move soon, nationalism (which is now largely a matter of slogans) will acquire its own practical logic. Positions will be taken from which it will be much more difficult for Russia to retreat.

Now is the time for a western charm offensive, beginning perhaps with a European free trade area. Otherwise, as Russia regains its economic strength, we shall return to a world based on *realpolitik* and confrontation. There is no reason why the forms of co-operation which prevail among western nations should not eventually include Russia.

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Stick together on Ulster

There can be no disguising the damage done to prospects for peace in Northern Ireland by the events of the past week. The Republican movement, which succeeded in increasing its electoral support during the IRA ceasefire, will now attempt to exploit the subsequent breakdown of public order in an attempt to legitimise its reversion to violence. Moderate unionists have found themselves sidelined as militants in the province's Orange Order have sought to reassert Protestant supremacy. The danger now is that loyalist paramilitaries will follow the IRA in ending their ceasefire.

The latest outbreaks of rioting and bombing take the province back to the worst days of the early 1970s. The work done by the Northern Ireland Office during a generation of direct rule to build up non- or quasi non-governmental institutions across the sectarian divide seems to lie in ruins. Northern Ireland's two communities appear polarised behind intransigent leaders.

The destruction of the Killyhevlin Hotel in Enniskillen is all too symbolic, not only because it was the first such terrorist attack in the province for nearly two years. The hotel was a successful private venture, at the heart of Northern Ireland's rapidly reviving tourist industry, and had been lavishly refurbished last year with help from the International Fund for Ireland. It is owned by Protestants but had been increasingly patronised by Catholics. There could be no more potent symbol of the peaceful and prosperous future to which so many in Ulster were looking forward, and which others had tried so hard to help achieve.

Loyalist rioting

There has been much apportioning of blame in recent days. Mistakes clearly were made. Once Sir Hugh Annesley, head of the Royal Ulster Constabulary, had decided to ban the Orange Order march through a Catholic area of Portadown, his subsequent climbdown in the face of loyalist rioting was bound to inflame nationalists. Sir Patrick Mayhew, the Northern Ireland secretary, might also have listened earlier to suggestions for an independent body to mediate on the routes of Orange marches.

For their part, constitutional politicians in the province have ceded too much ground to the extremes. Unionist leaders have failed to exert authority in persuading their community to balance their rights against the sensitivities of their nationalist neighbours. John Hume, leader of the SDLP, has tried hard to woo the republican movement away from violence, but not hard enough to find common ground with mainstream unionists. Extremists can be marginalised if moderate leaders are clearly determined to move forward. Giving them an effective veto on progress is a sure recipe for getting nowhere.

No easy way

But there is little to be served now by recriminations. No-one can pretend there is an easy way out of the present crisis, but it is the duty of all constitutional politicians to make the attempt.

That effort should start with a rapid repairing of relations between the British and Irish governments. Whatever the immediate anger felt in London and Dublin, Mr John Major and Mr John Bruton surely recognise that only the extremists benefit when their two governments hurl public insults at each other. Without close Anglo-Irish co-operation there is no hope at all of political progress. In present circumstances, a strong relationship is also vital to ensure effective action by the security forces against the paramilitaries.

The Labour party similarly must not use the events in recent days to break with the bipartisan approach to Northern Ireland. The broad consensus built during recent years around the principle that the province lies in the hands of its people is too important to be lost in party political games.

It may be that the best hope for the short term is that the present violence can be contained. It will be difficult on all sides to rebuild the relationships of trust on which any political progress will depend. But the two governments and Northern Ireland's constitutional politicians must redouble their efforts. Otherwise the terrorists will have won.

Burma's junta under pressure

Burma is becoming an awkward problem for the international community, now that the ruling – and absurdly named – State Law and Order Restoration Council has stepped up its campaign against Ms Aung Sang Suu Kyi, whose National League for Democracy won the 1990 elections.

It recently arrested NLD members assembling for a party congress; Mr Leo Nichols, an associate of Ms Suu Kyi and occasional honorary consul for several European countries, subsequently died while under arrest for illegal ownership of a fax machine. That will lead directly to a call by Denmark for sanctions against Burma at an EU foreign ministers meeting today.

These developments thus raise again the question of how to treat countries which flout the normal standards of civilised behaviour in the treatment of their subjects.

The growing US consumer boycott of companies which invest in Burma has seen Carlsberg and Heineken drop out of brewery projects there. Consumer boycotts can be more effective than politically-mandated trade sanctions which are always open to evasion: witness the pressure on US business to withdraw from South Africa in the time of apartheid.

No doubt such pressure will continue to mount in the case of Burma, and European governments have a duty to inform the government in Rangoon of the strength of public opinion against it. But, given the attitude of other Asian countries and Japan, there is little chance of broad international support for sanctions that could make them remotely effective.

Natural resources

Sanctions would also drive Burma to rely even more on its illicit drug trade and push it further into an unhealthy dependence on China which already has a large presence in the country. Beijing sees strategic advantage in access to Burma's large natural resources and to its ports facing the Indian ocean.

All the evidence suggests that the Burmese junta remains in tight control of the country. It cares little about how the outside world views it and could blithely ignore even a robust consumer boycott mounted by the West. Other investors will step into the brewery projects. There is little chance that a consumer boycott could scupper the gas pipeline which is Burma's major international project.

At the other end of the spectrum from protesting consumers is the Association of Southeast Asian Nations which has been pursuing a policy of "constructive engagement". This rests on the theory that economic development can civilise a regime; the evidence is that this tends to be a triumph of hope over over experience and certainly in Burma's case it has failed, so far. But since the extent of economic development has been very limited, this is not all that surprising.

Regional economy

Asean will have to confront this problem at its annual meeting in Jakarta at the end of this week. Asean's aim of integrating Burma into the regional economy is laudable, not least because it offers a counterweight to the influence of China. But Asean will look silly if it proceeds with plans to make Burma a member next year.

It should now take a firmer line. Even if the consumer boycott abroad will itself be of limited effectiveness, economic pressures are making the Slorc's position increasingly unsustainable. Burma's currency has fallen sharply on the unofficial market. It is running up arrears on foreign payments and inflation is rampant. Burma badly needs help from the International Monetary Fund and the World Bank. Given the weight of world opinion about the regime, such help could not be forthcoming. Mightier states, such as China, can ignore global opinion with relative impunity. Burma cannot.

Asean is better placed than any other international body to persuade the Slorc that it is in its own interest to open the door to the chance of such external assistance, by starting to build a dialogue with Ms Suu Kyi. Unfortunately, Slorc's dismal record provides little reason for optimism.

Pen Kent, chairman of CrestCo

Farewell to mounds of paper

After the fiasco of Taurus, London is pinning its hopes on the Crest share settlement system which begins today, says **John Gapper**

In a vault in Islington, north London, sits a pile of paper representing £120bn of share certificates held on behalf of large investors by the Royal Bank of Scotland. Today, this pile will start dwindling as shares are dispatched from the vault, never to return. By next April, the pile should have gone.

The cause of this vanishing act is a share settlement system that the City of London hopes will end a decade-long saga of frustrated plans and wasted money. The new system, called Crest, should also bring London into line with big financial centres such as New York in having a modern method of settlement.

"Crest will be cheaper and more efficient, and those things are important if you want to compete in global markets," says Mr Pen Kent, chairman of CrestCo, a company owned by 69 financial institutions that has overseen the construction of Crest during the past three years.

Between today and next April, the shares of companies listed on the London Stock Exchange, as well as other markets such as the Alternative Investment Market and Tradepoint, will be moved in batches out of Talisman, the exchange's paper-based settlement system, and into Crest.

As they are moved, an enormous paper chase will be set in motion. The shares of big institutional investors such as pension funds are generally held by custodians, of which Royal Bank of Scotland is one. But over the next year, they will be moved in boxes from custodians to company share registrars.

Registrars, which keep the records of who owns shares in particular companies, will receive the shares and translate them into electronic records forming part of the Crest system. In theory, the share certificates can then be destroyed, although most will be stored for a year or two in case of errors.

Providing that it works smoothly, Crest has a number of advantages over Talisman:

● It should eliminate the everyday risks of settlement. A certificate moves through an average of 25 pairs of hands each time it is traded. "It can get lost or mis-filed, or messengers carrying it can be robbed," says Mr Terry Pearson, a director of Royal Bank of Scotland Securities Services.

● Crest will allow a reduction in financial risks. The biggest risk in settlement is that the investor who buys a share will go out of business before the cash is paid. The longer the delay between transfer of shares and payment – known as the settlement cycle – the greater the risk.

The London market has already moved to a shorter cycle, in which trades are settled five days after the transaction, a system known as T+5. Crest should enable London to move to T+3 by autumn next year, and may eventually allow the simultaneous transfer of cash and shares.

● Crest will lower the overall cost of settlement. The system itself will require about £20m in income a year to break even, compared with Talisman's £65m in revenue. Although Talisman includes some settlements services that Crest does not, it still costs nearly twice as much when services are properly compared.

Crest's introduction is happening extremely slowly. Although Crest has been tested heavily to ensure that its 280 users can cope with the huge daily volumes of share transactions in London, the first few days will only see a few hundred transactions in the shares of 14 relatively small companies at most.

This is because the first shares will only settle in Crest on August 14. The system starts today to allow time for the trades of individual investors who are given the concession of using the slowest available settlement cycle. Their share transactions are settled 25 days after they are traded.

Because all large investors now use T+5, the real action will only start five days before the first Crest settlement on August 14. Even then, it will be relatively low-key compared to the pressures exerted on Crest when shares of FT-SE 100 companies start moving across in September.

By the turn of the year, Crest will be starting to bear significant strains as most of the FTSE-100 shares are settled daily within it. This means it will be expected to cope with perhaps 100,000 transactions on a typical day, each one involving a series of events to transfer and re-register shares.

Despite the fact that Crest is not fully tested, and some software glitches are still being ironed out, the mood at the helm is remarkably relaxed. "There have been one or two nail-biting moments in the past few months, but I have not had any sleepless nights recently," says Mr Kent.

The stakes are high. The history of London's movement from paper to electronic settlement is not impressive. There have been heavy casualties along the way. All those involved in Crest remember the fiasco of Taurus, the previous effort at electronic share settlement, devised by the Stock Exchange.

Taurus was finally abandoned three years ago, after the exchange had spent £75m on a doomed attempt to produce something to please all the City's factional interests. Mr Peter Rawlins, the exchange's chief executive, resigned and the Bank of England took over the project from the exchange.

The result is that the exchange will lose a third of its income when Talisman finally stops operating next April, and it has already disclosed plans to cut 400 jobs. The Bank of England has kept control of the project during its development, but will pass its voting rights to the shareholders by the end of this year.

Although the Bank has managed to marshal conflicting interests more effectively than the exchange, Mr Kent concedes that its task was easier. "Taurus gave the Bank the legitimacy to step in and get on with the job. It needed a market failure to get everyone pointing in the right direction," he says.

The Bank pressed home its advantage in two ways. First, it decided on the concessions it was going to make to special interests at the outset by getting a taskforce to plan the basic shape of Crest. Unlike Taurus, the course of Crest did not deviate once the founding principles were established.

One concession was to make registrars part of Crest, rather than having a central depository for shares, as in New York, which would reduce the income of registrars. "We are now right at the heart of the settlement cycle," says Mr Ralph Walrond, managing director of Lloyds Bank registrars.

Second, the Bank hurried everyone along. It originally thought Crest should involve an 18-month period of transition, rather than the nine months now being allowed.

This has led to CrestCo setting demanding targets for all those involved, which include 20 software companies. It has only just told users that it will allow extended software testing. "We were always going to do that anyway, but we did not feel like telling anybody until now," says Mr Ian Saville, chief executive.

The result is that Crest has stuck to its original development budget of £29m, including £12m of equity contributed by a range of market users. Mr Saville is proud of the contrast with Taurus. "Have you ever heard of an IT project of this size being delivered on time and to budget?" he asks.

Not everyone will be a winner, even if Crest works as expected. The most obvious cause for concern is among smaller private investors. Crest is a system designed with big investors in mind, although – unlike Taurus – it will allow small investors to hold on to paper certificates if they choose.

The change is that Crest will not use income from large investors to subsidise the transactions of small ones. The basic cost of settling a paper transaction within Crest will be twice that of an electronic one: about £2, compared to £1. This has led to fears that small investors will be disadvantaged.

Mr Saville has little truck with this, arguing that since overall costs of settlement will fall, it is a matter of relative advantage. "I cannot see how any shareholder is worse off. It is like saying somebody who uses the corner shop is disadvantaged by a supermarket opening down the road," he claims.

Some private client stockbrokers have already announced they will charge extra next year for paper-based transactions. Although others have said they will not do so yet, most brokers expect to move to differential charging in the long term as paper becomes more awkward.

To avoid paper, small investors can either join nominee companies of brokers, or become sponsored Crest members. Eventually, they may have little option. "In five years' time, 95 per cent of settlement will be electronic, and the other 5 per cent may create 25 per cent of our costs," says a broker.

For the market as a whole, the choice will not be as stark. This morning's first dabble in Crest settlement promises an end to a long and costly saga. In the vault in Islington, as elsewhere, a lot of fingers will be crossed. The hope is that Crest lives up to everything that has been promised.

· OBSERVER ·

Atlanta will bill you

■ Worried about what you should tip when visiting an Atlanta restaurant during the upcoming Olympic Games? Relax, those nice people running Georgia's tourism promotion authority have decided for you.

When you get your bill, an extra 15-20 per cent will have been added. This beautifully simple solution to one of life's major crises might be regarded by cynics as sharp practice, taking advantage of the Olympics. After all, who knows if the waiter or waitress will get the tip, or if it won't actually end up in the restaurant-owner's pockets?

Ron Fennel, a vice-president with the Georgia Hospitality and Travel Association says it's just a convenience for the customer. "I know that when I go out for dinner, I don't like to be bothered with the math of figuring the tip."

"Waiters and waitresses earn a base wage of only $2.13 an hour and rely on tips for the bulk of their earnings. A number of visitors to Atlanta during the Olympics, however, come from traditions that do not tip ... This is just a way to ensure that the waiters and waitresses get paid," he added.

Hmm. Observer sees a pattern emerging here. Last week Atlanta city council approved a taxi fare increase, with the basic downtown rate going from $5 to $7, and the ride from the airport to downtown from $18 to $22. And – would you believe it? – these increases will last until the end of August, neatly coinciding with the Games.

So a word for all Atlanta diners. If unsatisfied with the service, tell the manager. You are legally entitled to have the tip subtracted from the bill. And let the waiters harass their employer, not you.

Spaced out

■ The world's largest single securitisation, the FFr40bn bond issue being managed by Crédit Lyonnais, the troubled state-owned bank, is causing more than a spot of bother now that it has been boycotted by three leading French banks. Anyone who had looked at its distinctly curious name – Cyber-val 07-96 – might have sensed trouble. What can it mean?

Well, the digits at the end are a clear enough reference to the launch date in July, but the bank is vaguer about the words – mumbling something about futuristic, computer-age images suitable to the late 1990s.

But in the French "verlan" slang – by which words are cut in two and the pieces switched round – Cyber becomes Bercy, the hated French ministry of economics which helped put together the onerous restructuring plan under which Crédit Lyonnais is now labouring.

Which leaves "val", probably short for valeur, or security. After all, it couldn't possibly be an abbreviation for lavatory, summing up how some of the bank's executives feel about their civil service interlocutors.

The fish sank

■ In what is either an act of supremely unconscious irony, or very subtle humour, the Preparatory Committee – the Chinese body organising the first post-handover Hong Kong government – has selected as the mascot for the celebration marking the colony's handover to China in 1997 the Chinese white dolphin, also known as the Indo-Pacific hump-back dolphin.

The dolphin – which is actually pinkish – was reportedly suggested by committee member Raymond Wu. Not that any of his fellow committee-members seemed to disagree with Wu's identification of the dolphin as having exactly the character of Hong Kong: "clever, cute, kind, active and inoffensive."

It also has another characteristic: it's very rare and, in the waters around Hong Kong at least, faces extinction.

Moscow burns up

■ Much has changed in Russia since Soviet times. For instance, restaurants are now more likely than not to stay open at lunchtime, rather than closing to give their workers a break. Some changes are not for the better; unexplained bombs on buses are a grim and entirely unwelcome novelty.

But some Soviet habits die harder, as sweltering Russians – with temperatures reaching the mid-30s Celsius – are now discovering. Muscovites still endure the annual ritual of shutting off hot water pipes and swimming pools to allow the city's boilers to be cleaned.

This is more than a tad annoying while Moscow is experiencing the current freak heatwave. The only compensation is that fur bats are going for bargain prices.

Burmese pulse

■ Bad news for foreign investors in Burma – one of the two cranes at Rangoon's port has broken down. This means it's become a bit more difficult to repatriate profits.

Not that foreign investors are taking out containers full of cash, simply that in order to repatriate their earnings they are forced to buy commodities – beans, lentils and assorted other types of pulses are currently in vogue – and export them.

With all these goods now moving out at half-speed, the port is looking stuffed to the gills – while investors' accounts are probably feeling rather empty.

Financial Times

50 years ago

The American Loan
One of the best sellers of all time is a platitudinous American book called "How to Make Friends and Influence People." A course of reading in this book would be beneficial to the British Treasury. The inconsistencies of our bureaucrats defy description. They ask the United States for a large loan, though Britain still holds many valuable American securities. It was suggested by the Isolationists and other enemies of the loan to Britain that the American Government should take over those securities before lending to us. This suggestion was brushed aside by the American Government who declared that they would have nothing to do with such a transaction.

Peso Rate Rumours
Culminating a week of conflicting rumours in local financial circles of an impending, even imminent, far-reaching modification of Argentina's monetary system, the Government has issued a categorical, though carefully phrased, denial. The statement, in effect, states that the rumours regarding the creation of a new currency unit in substitution of the peso and devaluing the national currency is hereby denied. Although the denial encompasses devaluation, revaluation is not mentioned.

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Games of patience at Burma's stock market

By Ted Bardacke in Rangoon

The teak panelling smells fresh. The carpet is plush. The sleek high-backed chairs are comfortable and nearly a dozen attendants stand ready to take buy and sell orders for shares in Burmese companies at the Myanmar Securities Exchange Centre, which opened early last month.

There's only one problem with Burma's fledgling stock market. No shares are listed. No trades are made. The phones work only sporadically. One senior executive says he has never worked harder – on his golf.

"There isn't a whole lot to do right now," admits Mr Eiji Suzuki, managing director of the exchange, a joint venture between Japan's Daiwa Institute of Research and Burma's state-owned Myanma Economic Bank. "But we're very patient. It will happen sooner or later."

But before it does, the country's antiquated securities law, which makes it difficult for brokers to set up in business and private companies to go public, will need to be reformed.

Such reforms would enable the exchange to become an over-the-counter market, attracting Burma's public companies. If enough companies list and brokers are allowed to set up shop, a member-run exchange could be operating within three years.

The authorities believe such a stock market could become the eventual mechanism for the government's privatisation programme which failed so miserably last year when only six of 51 state enterprises were sold off.

Even foreign investors might be lured into the market if a way round Burma's two-tier exchange rate can found. Chinese-style B shares, which are denominated in US and Hong Kong dollars and reserved for foreigners, could be considered.

But Burma's top-heavy decision-making means the recent hospitalisation of Gen Win Tin, the finance minister, could delay vital decisions for some time.

For those who cannot wait, however, there is another option. Just round the corner from the exchange are the offices of First Myanmar Investment Company, a public company with interests in a private bank, hotels, retailing and real estate.

A small white board on the second floor says shares in the company are being offered at 15,000 kyat ($100 at market rates, $2,500 at the official exchange rate).

"That's up from 10,000 kyat when we issued shares in 1992," says Mr Martin Pun, First Myanmar's chief executive officer. About 250 of the company's 16,000 shares are traded each month. It publishes share prices and trading volume twice a week.

"We get people just walking in off the street to buy shares. We had 400 shareholders in the beginning and now we have more than 2,000," says Mr Pun.

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Corporate traders try to run rings round Olympic sponsors

By Richard Waters in New York

Advertising hoardings along the strip of highway linking Hartsfield airport with downtown Atlanta display Fuji's "Images of Excellence": an American javelin thrower, caught in sharp close-up on Japanese film.

Daimler-Benz has put $4.5m towards rebuilding the dilapidated house that was once home to Margaret Mitchell, author of that sweeping Southern epic, *Gone with the Wind*. Where better to throw a corporate thrash during the centennial Olympic Games, which open in this southern US city on Friday?

Samsung is parading its wares in a building alongside Atlanta's Centennial Park, where many of the 2m visitors expected in the city will rub shoulders.

But if the mighty dollar is driving the Olympics, this is commercialism with a twist.

None of these companies has paid for the privilege of linking its name to the world's biggest sporting jamboree. It is Kodak, Fuji's arch-rival, that is the official provider of film to the Atlanta Olympics. BMW paid to be "the official provider of mobility" for the Olympic flame as it traversed the US in recent months.

In spite of the efforts of the Olympics' team of lawyers, it has been impossible fully to protect the interests of sponsors who have paid $40m each to associate their names with the Olympics – twice the amount paid by backers four years ago. This has become the biggest source of money for the games, bringing in about a third of the $1.7bn required to stage the event.

As long as they do not steal the Olympic brand – its name or rings – there is little that can be done to keep out the raiders.

The city refused to rent any of its public spaces to Samsung, says Mr Steve Labovitz, chief of staff to Atlanta's mayor, Mr Bill Campbell. But it could do nothing to stop the Korean conglomerate hiring private premises and erecting its own advertising.

The official backers profess themselves generally happy with their defences. "The IOC [International Olympic Committee] has done a great job protecting the sponsors," says Mr Stu Cross, vice-president overseeing Coca-Cola's Olympics marketing.

The early rounds of the battle appear to have gone to the official backers. Fuji has been ordered to cover its name on the hoardings during the games. And the Margaret Mitchell house is not likely to play host to any Daimler parties for some time. An arson attack two months ago has left the building a charred shell. By the time reconstruction of the house is completed, the games will be long gone.

The Commercial Games, Page 4
Britain's élite, Page 10
Observer, Page 15

US team seeks to speed Russian reforms

By John Thornhill in Moscow

A team of senior US figures including Mr Al Gore, the vice-president, will this week try to boost Russian reform by promoting a package of trade and investment measures designed to speed the country's reintegration into the world economy.

Mr Gore's team will concentrate on helping Russia introduce an effective tax regime, stimulate domestic and foreign investment, and combat crime and corruption. Its two days of talks will take place in a buoyant atmosphere in Moscow after Mr Boris Yeltsin was returned to office in presidential elections less than two weeks ago.

"It is, in some ways, the beginning of a new phase of the new era of Russian history," Mr Gore said yesterday. The US vice-president will be the first senior foreign politician to meet Mr Yeltsin since the elections.

The bilateral talks will be the seventh in a series of meetings between Mr Gore and Mr Victor Chernomyrdin, Russian prime minister. Some observers have criticised past meetings of the Gore-Chernomyrdin commission as ineffectual. But US officials appear increasingly confident that some slow-ripening initiatives will soon bear fruit.

Western energy companies hope the talks might clear legislative and tax obstacles blocking several multi-billion dollar investments in the Russian oil sector, including large developments in the northern Timan-Pechora basin and on Sakhalin island in the far east.

The US team, which includes Mr Mickey Kantor, commerce secretary, will encourage further liberalisation of Russia's trade regime in return for backing the country's aspirations to join the World Trade Organisation.

Mr William Perry, the US defence secretary, will support moves to tighten controls over Russia's "loose nukes". The lax security over Russia's nuclear weapons has caused much international alarm.

Some American commentators argue that the US should raise its expectations of Russia as the country becomes more "normal".

"The US has to start talking to Russia as a re-emerging great power rather than as a psychiatric patient entitled to special understanding and indulgence," wrote Mr Dimitri Simes, president of the Nixon Centre for Peace and Freedom, a public policy institution, in the Washington Post last week.

Mr Gore expressed concern yesterday about the latest upsurge of fighting in Chechnya. But he adopted a conciliatory tone over Nato's plans to embrace former Soviet bloc countries.

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THE LEX COLUMN

Murdoch's mobile

Here is a conundrum: over the past year, BSkyB's stock has risen by a half; but News Corporation, which owns 40 per cent of the UK pay-television network, has seen its shares stagnate. In the same period, Mr Rupert Murdoch – who controls News Corp – has concluded several deals with the aim of replicating BSkyB's success in other regions: the US, Germany, Asia, Australia and Latin America. He has also formed a US sports channel and is about to launch a 24-hour news channel.

If there were problems in other parts of News Corp's empire, the divergence in share prices would make sense. But there are not: Mr Murdoch's newspapers are faring well thanks to lower newsprint prices; so is his Hollywood studio, 20th Century Fox, whose *Independence Day* is currently breaking US box office records.

Why then is News Corp's share price marooned? Precisely because Mr Murdoch is attempting to clone BSkyB. Over the next few years, News Corp will spend several billion dollars on his new TV projects. It might only take one more success like BSkyB – now worth £8.2bn ($12.8bn) – to justify such investment. But shareholders have little faith it can be done.

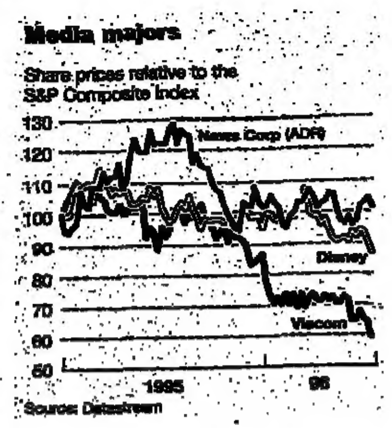
Up to a point, the scepticism is justified. BSkyB is worth so much because it is a de facto monopoly. In none of the other markets Mr Murdoch is targeting does he have a free run. The more competitive the market, the lower the returns, as bidding wars will drive up the cost of programming.

Moreover, in some markets – notably the US and Japan – News Corp is a latecomer, with the result that its pay-TV networks will be launched after rivals are already established. Meanwhile, Mr Murdoch's Chinese satellite network has yet to make a commercial breakthrough because of his tricky relationship with the Beijing authorities.

That said, the obstacles can be exaggerated. In Germany, Mr Murdoch's venture with the Kirch group is ahead of the competition, led by Bertelsmann. In Latin America, News Corp will be second to market; but teaming up with Mexico's Televisa and Brazil's Globo, the strongest local media groups, should give it an edge in the medium run.

Local media groups like Kirch or Globo do not have to cut News Corp into their markets. But they do. This is partly because they want to benefit from News Corp's expertise in running pay-TV networks and partly because of News Corp's programming rights – notably Hollywood movies, sports and, to a lesser extent, news. An unadulterated concoction of US pap will not, of course, appeal to viewers from Bogota to Berlin. But some programmes can be recycled if packaged with local products.

Media majors
Share prices relative to the S&P Composite index



Source: Datastream

It is this combination of international distribution and programming that could give News Corp an edge over other media conglomerates such as Disney, Time Warner and Viacom which have been content simply to sell their programmes internationally. Broader distribution would allow News Corp to pay more to acquire the best rights; top programming could then attract viewers; and with more viewers, News Corp could justify paying even more to snap up rights.

Mr Murdoch is a long way from achieving such a virtuous circle. Nor is there any denying that he is betting a lot of money on his pay-TV ventures. But the pay-off, if he succeeds, will be correspondingly large.

Nestlé

Nestlé will provide further evidence of its rapid recovery when it announces trading figures tomorrow. An auspicious alignment of factors, from a stable Swiss franc to weaker coffee bean and packaging prices should deliver double digit earnings growth this year. Moreover, several businesses which have been sucking up capital will be beginning to pay their way. Nestlé's SFr3bn ($2.4bn) plunge into global mineral water since 1991 has yet to deliver a decent return. Perrier, in particular, has been more trouble than it was probably worth. But its corporate recuperation is almost complete and profits should soon bubble forth.

Such an environment is good for shares, but hardly the perfect backdrop for revolution. So investors who expect the appointment of Mr Peter Brabeck as new chief executive to herald dramatic change may be disappointed. Of course, in a country where share buy-backs are impossible and dividends heavily taxed, it was unlikely that Nestlé would pursue significant disposals until it found somewhere to spend the money. And Alcon, its ill-fitting pharmaceuticals business, has proven far more profitable than any of Nestlé's recent big deals.

But there is certainly room for change. Nestlé has been slow to rationalise a sprawling business portfolio, and subsidiaries not seen as growth priorities tend to be left to fester. Nonetheless, so long as non-performing or rapidly developing businesses, from ice cream and pet food to water, start to deliver growth, shareholders will not complain too bitterly.

Aids drugs

Aids is a big disease; but for the world's drug companies it has so far been a disappointingly small market. Around $2bn a year is spent on Aids research, but total sales of Aids drugs were a mere $450m last year. Even market leader Glaxo Wellcome, which has pumped over £500m into Aids over the past decade, clocked up sales of just £210m in 1995.

This could be about to change. Last week's Vancouver Aids conference highlighted the effectiveness of new three-drug cocktails, which reduce blood levels of HIV, the virus that causes Aids, to virtually undetectable limits. This raises the hope that HIV infection could become a controllable disease allowing patients to enjoy decades of healthy life.

The impact on demand could be explosive. More than 20m people worldwide are HIV positive. Over 2m of those live in developed countries and could afford treatment costing $10,000 or more a year. But only 10-15 per cent currently take the first generation drugs, because of their poor efficacy and bad side-effects. This ratio could jump to 40 per cent as people start taking drugs earlier and stay on them indefinitely to keep virus levels down. That could turn Aids into a £2bn-£3bn a year market.

Companies standing to benefit include Merck and Abbott of the US and Roche of Switzerland, which have all recently launched protease inhibitors – a new type of drug that plays a vital role in the cocktail. But the biggest winner is likely to be Glaxo Wellcome. Not only does it have its own protease inhibitor on the way, with a probable launch in 1999; its older Aids drugs form the basis of virtually every cocktail combination. Sales of Glaxo's Aids drug could reach nearly £1bn by the end of the decade.

N Ireland

Continued from Page 1

have been the result of "dirty tricks". This was seen as a suggestion that loyalist groups or British security forces could have been responsible.

Addressing 2,000 supporters at a republican rally outside the Andersonstown Road police station in west Belfast, Mr Adams said: "If anyone wanted a reason as to why the IRA has said it will not surrender its weapons, they should look back at what has happened this last week." Several people in the crowd chanted: "Let's get back to war, Gerry."

Kerkorian joins MGM race

Continued from Page 1

holds the rights to Leo for hotels and gaming. Its MGM Grand in Las Vegas – the biggest hotel in the world – is the keystone of a gaming empire which is investing heavily in new ventures, including a $700m casino in Atlantic City.

For PolyGram, MGM offers an opportunity to boost its modest film interests into big-league film-making, and complement its successful music operations. News Corp needs film and TV programmes for its global network.

Morgan Creek has financial support from Warner Bros, part of the Time Warner concern currently taking over Turner Broadcasting. Warner already owns the distribution rights to MGM home video output until 2003. Possibly to deter other bidders, it is threatening to try to enforce this right over the output from MGM's new owner.

Mr Kerkorian first bought MGM in 1969. He sold it in 1986 to Mr Ted Turner, eccentric founder of Turner Broadcasting System, who was reputedly charmed by the notion of owning the rights to *Gone With the Wind*.

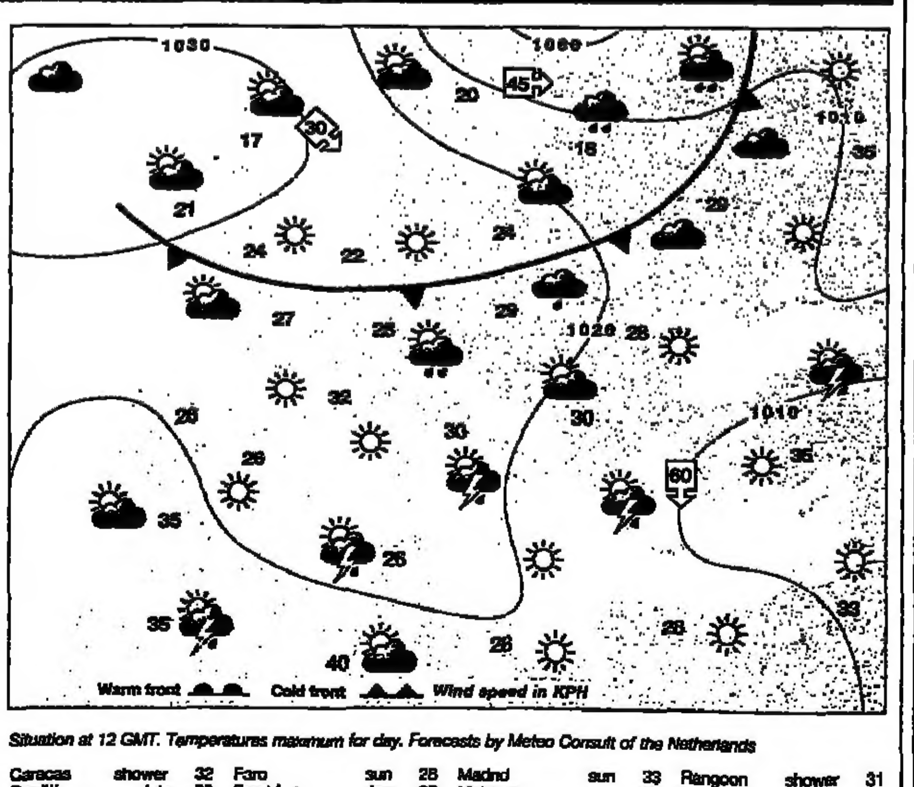
FT WEATHER GUIDE

Europe today

A weak cold front will bring drier air into the Benelux resulting in a sunny afternoon. An active depression over northern Scandinavia will push cool air towards northern Germany and Poland. This air mass will contain scattered showers. A strong high pressure system will move towards the UK producing dry and calm conditions. Cloud will persist in patches over high ground in Scotland and England. Warm air will stay over southern Europe but coastal areas will be cooler. Disturbances will produce afternoon thunder storms in the Balkans and northern Greece. Tropical temperatures are expected in Spain, Portugal and Turkey.

Five-day forecast

An active depression in north-eastern Europe will be followed by cool air surging towards the south and east. Thunder showers will precede a drop in temperature of several degrees in the former Czechoslovakia, Poland and the Balkan countries during the next few days. Tropical heat and abundant sun will persist over Spain, Portugal and Turkey. A strong high pressure system will yield sunny and dry periods in western Europe.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	42
Accra	cloudy	28
Algiers	fair	26
Amsterdam	sun	22
Athens	sun	33
Atlanta	thund	31
B. Aires	sun	15
B.ham	sun	24
Bangkok	thund	34
Barcelona	sun	26
Beijing	cloudy	29
Belfast	sun	20
Belgrade	thund	26
Berlin	sun	22
Bermuda	fair	28
Bogota	cloudy	18
Bombay	rain	30
Brussels	sun	24
Budapest	fair	29
C.hagen	sun	19
Cairo	sun	35
Cape Town	shower	11
Caracas	shower	32
Cardiff	fair	23
Casablanca	fair	26
Chicago	fair	28
Cologne	sun	26
Dakar	fair	30
Dallas	fair	35
Delhi	shower	32
Dubai	sun	40
Dublin	fair	21
Dubrovnik	thund	28
Edinburgh	fair	18
Faro	sun	28
Frankfurt	fair	27
Geneva	fair	30
Gibraltar	thund	26
Glasgow	sun	20
Hamburg	sun	20
Helsinki	windy	17
Hong Kong	cloudy	30
Honolulu	fair	31
Istanbul	sun	32
Jakarta	shower	31
Jersey	fair	17
Karachi	fair	34
Kuwait	sun	47
L. Angeles	fair	25
Las Palmas	fair	28
Lima	cloudy	17
Lisbon	sun	33
London	fair	28
Lux.bourg	fair	24
Lyon	sun	30
Madeira	sun	26
Madrid	sun	33
Majorca	sun	30
Malta	sun	29
Manchester	sun	23
Manila	fair	33
Melbourne	fair	13
Mexico City	thund	21
Miami	thund	32
Milan	thund	30
Montreal	rain	24
Moscow	fair	22
Munich	fair	27
Nairobi	cloudy	20
Naples	fair	30
Nassau	fair	32
New York	thund	29
Nice	thund	28
Nicosia	sun	35
Oslo	fair	19
Paris	fair	26
Perth	shower	19
Prague	fair	26
Rangoon	shower	31
Reykjavik	cloudy	13
Rio	shower	22
Rome	sun	30
S. Frsco	sun	21
Seoul	rain	27
Singapore	shower	30
Stockholm	fair	20
Strasbourg	fair	28
Sydney	windy	15
Tangier	windy	28
Tel Aviv	fair	31
Tokyo	cloudy	30
Toronto	thund	26
Vancouver	fair	24
Venice	sun	28
Vienna	fair	28
Warsaw	sun	23
Washington	fair	33
Wellington	rain	8
Winnipeg	fair	26
Zurich	fair	27